FINANCE GENERAL

1991

APRIL ~~MAY~~ – JUNE

Lower earnings force Sage to pass interim dividend

(58)

B/Day 2/4/91.

ROBERT GENTLE

SAGE Holdings, the financial services group which posted a 10,7% fall in earnings a share for the 12 months ending December 1990, has conserved cash by not declaring a second interim dividend and has made substantial provisions against its ill-starred US financial services ventures.

The directors blamed external factors — the recession and persistently high interest rates — for the 12 months' performance.

The company said that because of the recently announced change in the financial year-end, one final dividend would be declared after March 31.

Last month Sage said it had sold its US interests for $2m and was charging R55m against reserves to cover guarantees for the American offshoots' $15,8m debt.

The 12 months' consolidated pre-tax profit increased to R48,9m from R40,9m in 1989.

However, the profit fell sharply in the second six-month period to R23,1m from the first half's R25,8m and against R23,8m in the second half of 1989.

Lower attributable retained profits from associates clipped taxed profits lower down the income statement, and a sharply higher profit attributable to outside shareholders in subsidiaries resulted in the taxed profit attributable to ordinary shareholders falling to R24,9m from 1989's R26,5m.

Value

The directors attribute this principally to the sale of the parent company's holding of 18-million Sage Property Holdings preference shares — since converted to ordinary shares — to the group's life assurance company Sage Life.

The sale price was not disclosed though at the end of 1989 their book value in Sage Holdings' balance sheet was R27m.

Sage Life's attributable investment income is, correctly, not consolidated in Sage Holdings' accounts.

Earnings a share based on the weighted average number in issue during the year were 10,7% lower at 108,45c (121,41c).

On a fully diluted basis — that is, including all convertible preference shares for the period under review — the figure was 9,7% lower at 104,07c (115,23c).

While Sage Property Holdings held out well, Safe Financial Services (SFS) — which comprises divisions in life assurance, planning, trusts, finance and strategic investments — was hit by lower than expected growth in earnings from subsidiaries and certain associated companies.

As a results SFS's earnings crumbled in the second half.

Certain SFS interests are to be merged with UBS Holdings, Allied Group and Volkskas to form Absa (Amalgamated Banks of SA).

Sage Holdings director Bernard Nackan, commenting on the results, said: "Under the circumstances, they were not bad at all. We've written off the American problem and our balance sheet is now a reasonable basis for moving forward."

Ex-GM to help with JSE probe

CAPE TIMES 2/4/91

(58)

Own Correspondent

JOHANNESBURG. — Momentum Life Assurers' former assistant general manager, investments, Mr Christo Auret, is understood to be helping in attorney-general Mr Frank Kahn's investigation into irregular transactions on the Johannesburg Stock Exchange.

A source linked to the investigation confirmed that Mr Auret was assisting the Kahn investigating team in its probe which has centered on offshore dealings.

Mr Kahn returned to Cape Town early last week from the JSE due to a major lead in the investigation. Both the Registrar of Financial Institutions and the Reserve Bank are working closely with the Kahn team.

Meanwhile, it has emerged that the four suspect Momentum deals, which were made during 1988/89, involved gold shares.

At the same time British authorities were examining alleged insider trading in Consgold shares ahead of the takeover bid by Minorco.

Unusually high share and options dealings in Consgold, just before the bid, were eventually traced to a Cape-based syndicate, Link Syndicate. A W Bradshaw, a Guernsey-based brokerage, was identified as a dealer for the syndicate.

Mr Peter Rawson, a former Zimbabwean stockbroker who is wanted by police and Mr Kahn, was publicly linked to both A W Bradshaw and Link Syndicate at the time of the Consgold scandal.

CAN-Times 2/4/91 (58) ...

Business Report

Absa for JSE listing

Financial Editor

THE saga of the UBS takeover of the Allied Group has now finally been consummated and soon both Allied and Volkskas will no longer be quoted on the JSE.

Their prominent quotations will be replaced by that of the Amalgamated Banks (Absa), their adopted parent controlling nearly R50bn in assets, says Issy Goldberg, chairman of the Shareholders Association of SA.

Goldberg says the drama of the confrontation disappeared into the bowels of formality, following an agreement reached between UBS and FNB.

Competition is the essence of the matter, says Goldberg which rebounded to the benefit of Allied shareholders — from UBS's intitial price offer — by about 25%.

The latest state of the game requires Allied shareholders to surrender 260 Allied shares for an entitlement of 100 ABSA shares.

Further, Allied shareholders can elect to receive cash in respect of half their ABSA shares — an effective price of 275c an Allied share. The original offer was 240c a share.

Electing half the ABSA shares as cash must be made by no later than Tuesday 23 April, 1991. A shareholder who has not done so by that date will receive only ABSA shares and no cash.

Goldberg therefore suggests that Allied shareholders should make sure that these documents are received timeously, failing which they should immediately contact the share transfer secretaries.

FNB recieved a consolation prize from UBS of about R16m to cover their "out of pocket expenses".

UBS itself won the first prize (at considerably extra expense) and Allied shareholders can be thankful to both the UBS and FNB and the Securities Regulation Panel.

It is interesting to note from the consolidated pro forma balance sheet of Absa — UBS paid a goodwill of approximately R216m for Allied which represents the excess of the total purchase consideration paid for the Allied assets over their net tangible net asset value.

At the meetings of UBS and Allied shareholders held recently an ordinary resolution (a bare majority required) ratified the disposal by Allied to UBS of the total assets held by Allied.

Goldberg makes the submission that the absurdity of section 228 of the Companies Act is highlighted when a simple majority of those present in person or by proxy at a general meeting can ratify such a vast disposal in contra distinction to a special resolution being required (75% of those present or by voting by proxy) for a simple reduction of capital.

Goldberg says that he will endeavour to pursue the possibility of an amendment to section 228 so that effectively a special resolution would be mandatory for disposal of more than 50% of the assets or the undertakings of a company.

See Page 4

Banks get go-ahead to hedge on gold

(XXX) (XX) (58)

B/Day 2/4/91

ROBERT GENTLE

THE Reserve Bank has confirmed that it has given banks authorised to deal in foreign exchange the green light to transact gold-hedging operations on behalf of SA mines.

To date, mines have dealt directly with the Reserve Bank, which in turn allowed them to effect their hedging transactions through foreign bullion banks like Deutschebank or Morgan Guarantee.

The effect of this move, the result of requests by SA banks, will be to widen the scope for SA gold mines to hedge their output, while allowing the banks to offer them locally developed instruments priced in rands.

The banks understood to be in the forefront of the new development are Rand Merchant Bank, Standard Merchant Bank, Finansbank and Investec.

However, the Reserve Bank authorisation comes with three key constraints: these operations may not be speculative, they may not be done for the banks' own account and they must be subject to Reserve Bank approval.

Rand Merchant Bank (RMB) consultant Sean Llewelyn said that RMB had been devoting considerable resources to this end for almost a year, and had started to develop the necessary systems as far back as 1987.

He said that RMB had already made contact with potential client mines to which it hoped to offer expertise in option-type strategies priced in both dollars and rands.

"Foreign banks at present offer only products denominated in dollars. We aim to provide significant improvements and more flexibility."

Llewelyn estimated the potential hedging market at about 250 to 300 tons of gold annually — about half SA's total output — although he said this ultimately depended on how much gold the Reserve Bank allowed SA mines to hedge.

Each mine is examined on its merits,

To Page 2

Hedging

BDay 2/4/91

(XXX) (XX) (58)

From Page 1

but an accepted rule of thumb is that profitable mines may hedge up to 25% of their input, while marginal mines may hedge up to 100%.

A commonly held view in the market is that mines, irrespective of their profitability, should be free to determine their hedging needs.

A spokesman from the Reserve Bank's gold and foreign exchange division said: "Whenever a mine has a commitment offshore, we will examine the case on its merits."

Ian Benfield, divisional manager at Anglovaal — the SA mining house in the forefront of hedging techniques — said: "We could use local banks.

"It all depends," he said, "on whether they can offer us something we cannot already obtain through our international contacts."

Safegro on buying tack

81Day 3/4/91 58

LIZ ROUSE

IGI Life's Safegro Unit Trust changed its investment strategy to a positive stance after the Gulf War, with the result that liquidity was reduced from 32% at the end of December to 19% at the end of March.

The buying programme centred on topping up most of the fund's existing holdings. Safren (18 000 shares) was introduced as a new counter.

The Barlows holding (5 300 shares) was sold in its entirety during the March quarter.

The total fund grew to R24,3m with only R4,5m held in cash and liquid assets at the end of March.

Performance including income for the nine months of operations to end-March 1991 has yielded a total return of 7,5% compared with the decline in the JSE all share index of 6,5% over the same period.

Safegro has declared an income distribution of 3,74c a unit for the six months to end-March.

Standard subsidiaries issue debentures

BIDay 3/4/91

GRETA STEYN

TWO Standard Bank Group subsidiaries issued R290m in debentures in the last quarter of 1990 to improve their capital position in anticipation of the new Deposit-Taking Institutions Act, Group CE Conrad Strauss discloses in the latest annual report.

The two subsidiaries are the Standard Bank of SA (SBSA) and Stannic. The move puts SBSA into an exceptionally strong capital position that will enable it to rapidly expand its balance sheet.

In terms of the Deposit-Taking Institutions Act, banks have to keep capital against their assets (mainly loans) weighted according to risk. This year, the required ratio of capital to assets is 4,5% — and SBSA is sitting pretty at 7%. The ratios for Stannic and SMB are 5,8% and 6,7% respectively. All banks have to phase in to an average of 6% to 7% of capital-to-assets by 1995.

58

The annual report says the debentures, which mature from 1998 to 2000 and bear interest rates from 16,87% to 17%, qualify as "secondary" capital in terms of the Act.

"Interest rate risk associated with these debentures, which would arise from a decline in interest rates, has been virtually eliminated through the acquisition of substantially matching long-term securities," Strauss says.

Group chairman Henri de Villiers predicted another year of real profit growth in 1991. He said it would be inappropriate against a fluid political background to forecast performance outside very broad parameters.

He assumed a severe deterioration in the operating climate was unlikely, but added trading conditions might become more difficult.

The annual report also noted staff numbers grew by 5,7% last year. In this the Group bucked the trend in the financial services sector, where thousands of employees are expected to lose their jobs. Growing staff numbers have put upward pressure on operating expenditure.

He said the rise in staff costs not only reflected expansion of commercial banking services, but also intense competition for skilled people.

Strauss noted blacks accounted for 3,4% of all managers — up from 2,9% — and that black staff accounted for 38,1% of the total.

On political issues, De Villiers noted "distortions in the distribution of wealth are, however, so serious as to themselves constitute the main source of social instability".

COMPANIES

Old Mutual discloses record payouts

BDay 4/4/91

SEAN VAN ZYL

58

OLD MUTUAL has disclosed new record payouts from two of its equity unit trust funds for the first quarter of the year.

Old Mutual unit trusts' manager Mike Harper said Old Mutual's flagship fund, the Investors' Fund, which has assets of over R2,3bn, has declared its highest distribution of 60,95c a unit. Distributions for the last 12 months rose by 13,7% to 120,25c a unit.

Old Mutual's specialised equity Industrial Fund's second distribution rose by 43,9% to 7,8c a unit from its maiden payout of 4,3c in October last year.

In addition, Old Mutual's Income Fund, specifically geared to providing income while protecting the original capital investment, also declared a substantial rise in distributions for the quarter to 4,02c a unit. The past 12 month's distributions totalled 16,06c a unit.

He said a unit holder of the general equity fund who had invested an original sum of R10 000 at the start of April 1986 would have got a return today of 23,2% to R28 383 — if the distributions during the period were reinvested. He noted the distribution earnings of R4 504,13, gained over the five-year period, are equivalent to 45% of the original investment.

While the Income Fund did not achieve a record payout for the quarter, Harper said that an original capital investment of R10 000 five years ago would have appreciated to R10 334,43 by end-March 1991. The investor would also have earned an income of R1 547,80 over the last 12 months — producing an overall return of 15,1%.

Old Mutual trusts improve distributions

Finance Staff Star 4/4/91

The Old Mutual Investors' Fund has declared an income distribution of 60,95c a unit to bring the total for the past 12 months to 120,25c. This is 13,7 percent more than in the previous financial year.

The Industrial Fund, which was launched last year, has announced a distribution of 7,8c a unit, which is 43,9 percent higher than the maiden distribution in October last year.

The Income Fund's distribution for the past 12 months totalled 16,06c, which includes the March-quarter's distribution of 4,02c a unit.

The sound performance of the Old Mutual Investors' Fund is illustrated by the return on a five-year investment of R10 000 made on April 1 1986. If the distributions were reinvested the investment would be worth R28 383 as at March 31 1991. During this period the distributions would have amounted to R4 504.

The overall return during this period (capital growth plus distribution) is 23,2 percent. This is particularly impressive as it includes the stock market crash of 1987.

The Investor's Fund is by far the largest unit trust fund in the country and had assets of R2,3 billion at end-March.

The Income Fund, on the other hand, is geared towards capital preservation while generating some income through quarterly distributions.

An investor who put a lump sum of R10 000 in this fund on April 1 1986 would have earned an income of R1 547,80 over the past 12 months. This represents a total return of 15,17 percent.

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(58)

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Senbank to acquire stake in Adcorp through rights issue

B Day 4/4/91 (58) (232)

MARC HASENFUSS

SENBANK is to acquire a 15,25% stake in professional services company Adcorp Holdings through a rights issue of 1,4-million convertible debentures which it is underwriting, Adcorp says.

In its year-end profit announcement yesterday Adcorp said Senbank would achieve its stake through a rights issue of the debentures of 90c each, on the basis of 18 debentures for every 100 Adcorp shares held.

Major shareholders in Adcorp had undertaken not to follow their rights.

In anticipation of formalising the association through the rights issue, Senbank senior GM Estienne du Toit had been appointed to the Adcorp board.

Adcorp chairman John Barry said Senbank would materially assist Adcorp in achieving its growth and development objectives.

Senbank CE Hennie van der Merwe said the bank had been close to several Adcorp companies for some time, particularly TWS Communications.

Adcorp reported a slender 7% increase in earnings to R1,4m (R1,3m) as tighter margins eroded a 40% boost in turnover to R45m (R32m) for the year to end-December 1990.

Earnings a share fell 10% to 18c (20c). The number of shares in issue increased from 6 520 to 7 700.

The dividend payout was reduced to 7c (9c), covered 2,6 (2,2) times.

Barry said: "Our strategy of diversifying within the professional services sector, which commenced in mid-1989 with the acquisition of TWS Communications and JSA Design International, was fully justified when these companies exceeded their joint profit warranty."

58

NBS Hallmark fund forges ahead

Finance Staff Star 5/4/91.

NBS Hallmark Mutual Fund, which differentiates itself from the rest of the market by having a strong rand hedge element to its largely industrial portfolio, added a further 400 accounts during the quarter.

The fund's value increased from december's R14,6 million to R17,4 million. Unitholders' income distribution for the six months to March 31 rose to 30,5c per unit giving a total distribution of 57,04c for the full 12 months. This is a 17 percent increase on the 48,74c distributed in the last financial year.

Managing director Ken Burns said that advantage was taken of the rising industrial market. Liquidity was reduced from 34 percent to 24 percent.

Looking ahead to the share market's likely performance for the rest of the year Mr Burns says that he expects a correction mid-year which should provide further buying opportunities.

Banking sector good for still more mileage

Star 5/4/91. (58)

Diagonal Street

ANN CROTTY

The banking sector contained some of 1990's strongest performing counters. Much of this was achieved on the back of expectations of major benefits flowing from the realignment of the industry's players.

The re-rating of the sector was expected to taper off in '91, with much more pedestrian share price performances believed to be on the cards.

This has certainly not been the case for the first three months of the year.

The banking sector index has soared from around 1700 in early January to a close yesterday of 2125.

Market bulls believe that this strength is a sign that the whole industrial sector is settling into a firm uptrend.

This reflects the belief that traditionally the banking sector is the first sector of the market to move in a bull phase.

While the industrial sector is currently enjoying good demand on rising price levels, it seems unlikely that the surge in the banking index is presaging a sustained and widespread bull run.

On the basis of the outlook on the operational front there seems little justification for the price movements seen in the banking sector.

Some easing in interest rate margins is expected, although initial benefits will have been countered by the introduction of the tax on interest income.

It will be difficult to hold increases in expenses at modest levels, given the wage expectations of the work force, and asset growth will be restrained by the continued weakness in the economy, which is also likely to hold the bad-debt experience at high levels.

Although it's not a very cheerful outlook, it is probably relatively much stronger than most of the other industrial sectors.

This is part of the explanation for the surge in the bank sector. Most of it, however, is attributable to a number of special situations.

Amid speculation of a possible rearrangement of its major shareholders, Stanbic surged from R30 at the beginning of the year to a high of R51 before easing back to a current R46.

Given the importance of Stanbic's weighting in the index this must have had a considerable impact.

Saambou moved up from around 100c at the beginning of the year to a current 170c. The surge was precipitated by a move (by the Trafalgar group) that was deemed to be an unfriendly bid for control.

NBS, which is not tied in with any of the major groups, moved up on the expectation that one of them would try to get hold of its asset base.

Allied's share price performance was the most widely publicised.

When First National Bank moved to try to block its incorporation into the Absa merger, the subsequent fight for control saw the share price surge to a high of 300c.

Even Bankorp has recently enjoyed some recovery from the 280c level it got stuck at after the release of details surrounding the rights issue.

Although they are not believed to be involved in any significant deals, First National and Nedcor moved ahead in the first three months of '91.

Many analysts believe that these sorts of levels are sustainable with, in some cases, scope for even further increases.

In his report on the implications of the 0,75 percent tax on interest income and finance charges, Davis Borkum Hare analyst Graham Baillie notes: "This tax must simply be looked at as a once-off adjustment to the cost structures of the institutions.

"We should expect a healthy competitive spirit to prevail in the market, with further emphasis placed on market share in the core banking products in order to increase the portion of non-interest income.

"Bank shares remain excellent investments despite this added tax burden," he says.

SAGE HOLDINGS (58) (222)

GRASPING THE NETTLE

FM 5/4/91

With the bad news now confirmed, and the potential benefits in the creation of Amalgamated Banks of SA (Absa) becoming apparent, Sage Holdings' share price has begun to recover. It was trading this week at 740c compared with November's 625c low and the

FM 5/4/91 (58) (222) FOX

12-month high of 850c.

Main elements of the interim report for the 12 months to end-December include a 10,7% drop in EPS and a R55m charge against reserves as a provision against the exposure to offshore interests which have been sold. Pro forma accounts show the boost to shareholders' funds that results from the Absa deal.

The foreign financial services interests have been disposed of for about US$2m, and the group has an option to re-acquire joint control of these interests within seven years, for about $600 000. The charge against reserves was to cover both guarantees given in respect of foreign borrowings, resulting from the US financial services interests, and the total carrying value of these interests.

The charge relating to guarantees of $15,8m was calculated at the financial rand rate. A balance sheet for December 31, and a pro forma version for January 1 showing the position of Sage Holdings after the Absa merger, include effects of the R55m charge.

With the value of investments held by the insurance subsidiary rising by R180m — attributed by executive director Bernard Nackan to growth during the year by Sage Life — and fixed and other non-current assets increasing by about R20m, total value of shareholders' funds end up higher by some R34m on the end-December balance sheet. When the Absa deal, whose terms were favourable for Sage, is included, the pro forma accounts show total shareholders' funds of R446m compared with the year-ago R318m.

The group estimates net worth at more than R10 a share (including convertible prefs) based on the values established in the sale of part of the interests in subsidiaries, and applying "realistic" values to other investments. Even so, some 201c a share has been lost by the charge against reserves. Also, the last accounts included goodwill of R65,8m; when this is excluded, NAV drops by about 24c. Nackan says a considerable part of the goodwill relates to Sage Life, of which 49% has been sold. This reduces the deduction for intangibles to about 12c a

Continued →

FOX FM 5/4/91 (58) (222)

share.

Based on the pro forma shareholders' funds of R438,6m (excluding R7m redeemable prefs), Sage Holdings appears to have a debt:equity ratio of around 30%. While that does not indicate a strained balance sheet, in cash-flow terms the group would certainly benefit from a reduction in debt held by the top company. That seems to be borne out by the announcement, which states that, despite the strengthening of the holding company's financial structure during the year, its results remain affected by high interest rates.

However, fuller disclosure of the offshore exposure, and adoption of a conservative approach to dealing with the problem, enables a more favourable rating of the share. Based on fully diluted EPS of 104,1c, the share now stands on a p:e of 7,1.

Andrew McNulty

New market for borrowers

GRETA STEYN

THE Reserve Bank is overseeing the creation of a new vehicle for corporate borrowing that bypasses the banking system — enabling blue-chip companies to borrow more cheaply.

The Bank is circulating draft guidelines to important market players on the creation of a commercial paper and debentures market. The confidential document calls for comments from interested parties and could lead to a change in the new Deposit-Taking Institutions Act to enable the creation of a new market.

When a company issues paper directly to an investor without going via a bank, the cost is cheaper as the bank's obligation to keep expensive liquid assets is not part of the price. For the banks, the advantage of the new market is that they can deal in the commercial paper in the secondary market. BDay 5/4/91

A banker said yesterday that a problem in getting the market up and running was that investors were reluctant to buy paper without a bank guarantee unless it was blue-chip. This could limit the market to only a few important players, but in time investors might feel safer with "pale" blue chips. (58) (180)

The official discussion paper says: "The Bank Supervision Department accepts that the orderly development of a commercial paper market in SA is inevitable but within an appropriate regulatory framework."

The draft guidelines indicate the market is obviously aimed at the big players. Issuers of commercial paper are required to have a net asset value exceeding R100m; in the case of unlisted companies the net asset value has to be R200m. The maturity date of the instrument will vary between

☐ To Page 2

Borrowers BDay 5/4/91

(58) (180) ☐ From Page 1

three and 12 months, while in the case of debentures it will be 12 months or more. In the Bank's first discussion document last year, only one-year paper was envisaged but comments from the market caused it to shorten the period.

The Bank's discussion paper said the funds borrowed in this way had to be used "for a specific project" and could not be used "either directly or indirectly" to finance credit extension, "be it in the form of trade debtors or advances on which interest is charged". The stipulation was made to ensure that the market was not abused by parties wishing to conduct banking without falling foul of the Act.

The Bank concludes that its document and comments of interested parties "could result in amendments proposed to the Act".

FINANCIAL SERVICES FM 5|4|91. (58)

DOVE OF PEACE

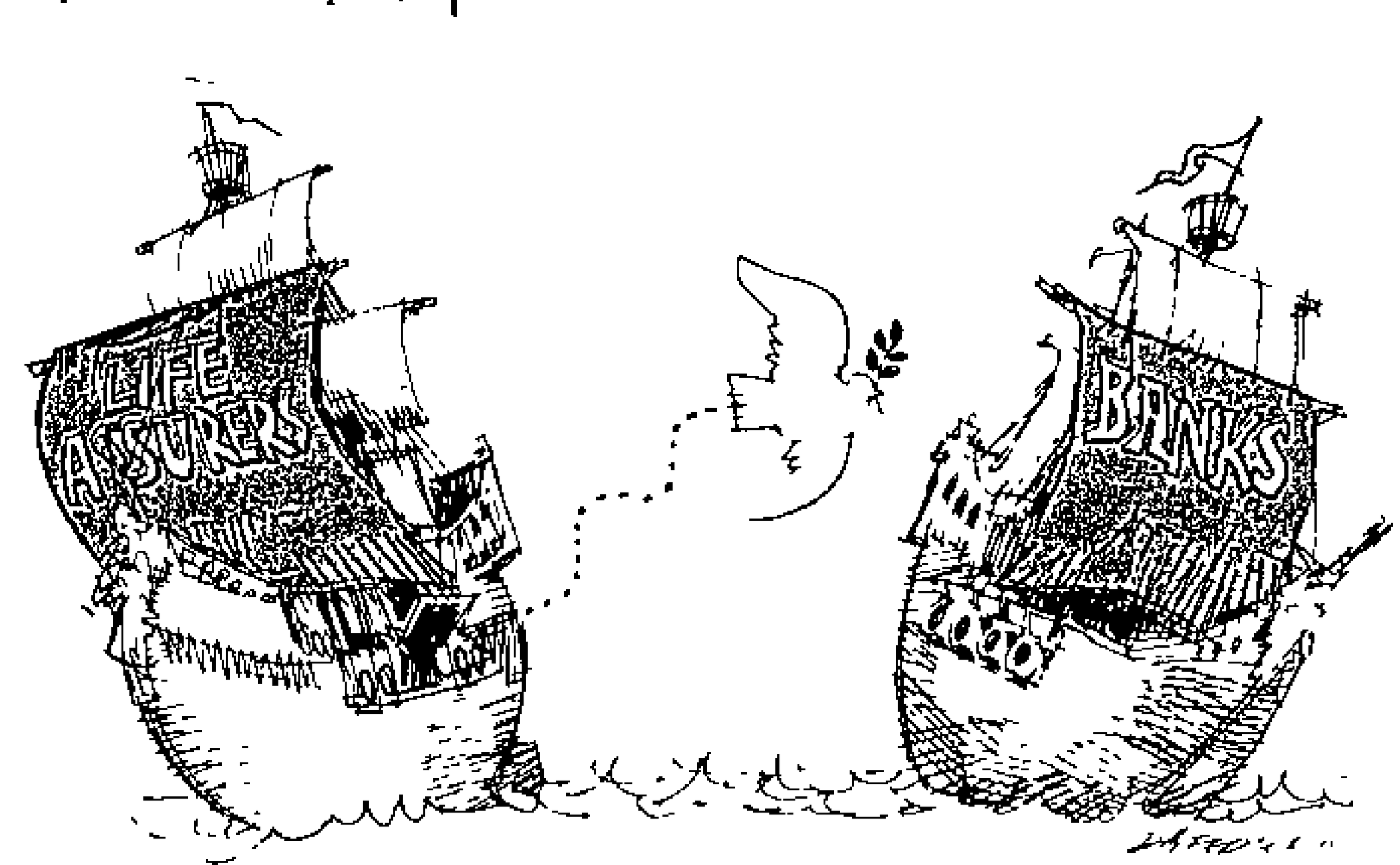
Post-Budget manoeuvring is on in earnest. Delegations from the Life Offices Association (LOA) and Clearing Bankers Association (CBA) began their campaign with visits to the Joint Standing Committee on Finance (SCOF) last week.

SCOF cannot itself change the Budget but is a convenient channel to lobby for change.

The campaign was preceded by an unusual olive branch extended by the LOA to bankers. Referring to the "turnover tax" to be imposed instead of VAT on interest earnings and finance charges — a major cause of concern for banks — LOA said: "It would be ridiculous if an argument developed between life assurers and banks (about the tax) because both industries are opposed to it."

Common ground is emerging between the two. Both accept that they must pay some tax, but want to pay it in a rational manner.

Several bankers and mortgage lenders accept that, if almost all goods and services are to be subject to VAT, it is equitable that the banking sector should contribute an amount equivalent to 12% on its output-minus-input, if that sum can be determined. A straight 0,75% tax on interest and finance charges would, they argue, be punitive and cause grave distortions to money prices.



The crux, points out Mike de Blanche of UBS, is that without VAT on banking services, banks will pay tax on their inputs yet have no satisfactory way to pass it on to

FM 5|4|91 (58)

consumers. "As a service industry, we accept that a proxy tax for VAT is needed but it must be equated to VAT."

At their meeting with SCOF, mortgage lenders pointed out that whoever had the brainwave of imposing a flat 0,75% forgot that the tax collection would go up and down as interest rates move They suggested a round table meeting with Treasury, hoping to find a practical way to implement the tax.

Life offices accept they must be taxed — "but definitely not Vatted," says LOA director Dick Geary-Cooke, citing the impracticalities faced by banks.

Of more immediate importance, assurers are jealously guarding the principle that they are merely trustees for policyholders' funds.

Finance Minister Barend du Plessis has admitted he cannot apply the trustee principle in full (though he has no quarrel with it) because he cannot afford to lose revenue. In a post-Budget M-Net interview, he said his hands were "calloused" from digging into life assurers' pockets

Life offices respond that, if Du Plessis needs to maintain revenue from them at about R600m, so be it. But it should be done in a manner that protects trusteeship. At present, the principle is abrogated by:

- ☐ Taxing dividend income. The life industry is the only sector subject to this tax;
- ☐ Disallowing expenses over 55%; and
- ☐ Regarding all policyholders as top-income bracket and taxing the proceeds at 43% A fairer average, says the LOA, would be 30%.

The LOA put its trusteeship case eloquently to SCOF, but skirted the counter-argument — that life offices trade in shares, so policyholders should be taxed on their dealing profits. At the same time, LOA deputy director Jurie Wessels took issue with the *FM* for pointing out the anomaly, asserting that assurers are generally long-term holders of shares so can't be considered dealers.

LOA has become expert at shifting its stance to suit circumstances When banks/

FM 5|4|91 (58)

building societies mounted their attack on assurers claiming they were tax-privileged, life offices responded that they were overtaxed Now, privately accepting Du Plessis needs revenue from them, they say they are wrongly taxed as well as over-taxed.

Also, with capital gains tax not an immediate issue and withholding tax temporarily on the shelf, the LOA seems to be seeking harmony with the banks by underscoring the differences between the two sectors.

Wessels notes: "Assurers are in the business of mobilising long-term savings. Banks mobilise shorter-term, discretionary savings . . . hampering the ability of life assurers to provide policyholders with value for money would not re-channel any savings to banks."

Wessels is right. The industries are different They will continue, correctly, to campaign for the best tax breaks for themselves. But no one's cause is served by trying to score points off each other

Piet Badenhorst who, through UBS, first provoked the argument, is now CEO of the biggest bank-building society operation, Absa, which happens also to have extensive life assurance holdings. He is well placed to call a halt to acrimony so that both industries can get on with the business they do best.

And to render unto Caesar that which is Caesar's. ■

SA EAGLE

FLYING LOWER

Activities: *Short-term insurer.*
Control: *BAT Industries Plc (through Eagle Star Insurance) 58,4%.*
Chairman: *F N Haslett; MD: P T Martin.*
Capital structure: *12,2m ords. Market capitalisation: R216m.*
Share market: *Price: 1 775c. Yields: 8,5% on dividend; 11,2% on earnings; p:e ratio, 8,9; cover, 1,3. 12-month high, 2 600c; low, 1 725c. Trading volume last quarter, 31 000 shares.*

Year to Dec	**'87**	**'88**	**'89**	**'90**
Total assets (Rm)	465,1	554,0	622,1	627,4
Solvency ratio (%) ..	53,9	59,6	93,4	82,6
Underwrit prof (Rm)	8,3	38,0	20,6	(36,8)
Inv income (Rm)	31,3	44,3	52,5	52,4
Pre-tax profit (Rm) ..	37,5	80,7	69,8	11,1
Earnings (c)	222	417	392	199
Dividends (c)	125	180	190	180
Net worth (c)	1 634	2 241	3 942	4 001

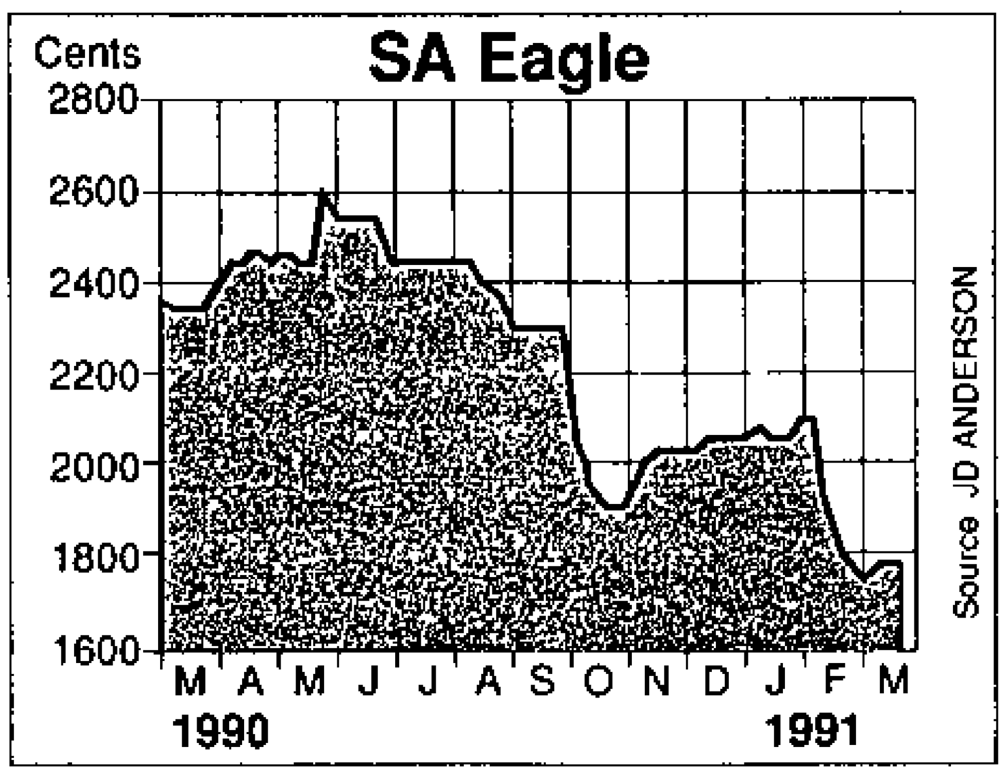
A rapidly rising crime rate, coming on top of the more traditional problems of excessive motor insurance claims and natural disasters, has caused havoc throughout the short-term insurance industry. In SA Eagle's case, it contributed to a R36,8m underwriting loss for 1990, wiping out more than half the profit of the previous three years.

However, to be fair to the thieves, hijackers, accident-prone motorists and others responsible for the industry's woes, one should not overlook that at least some of the pain has been self-inflicted.

An interesting exercise is to break down SA Eagle's underwriting account. Starting at the top, gross premium income rose 12%, but the effective net premiums earned by the company were up almost 18%, largely because the group made less use of reinsurance — reflected in a 5% decline in reinsurance premiums paid out. This was, obviously, an initial saving to the company, but at the same time it increased the risk profile of the insurance portfolio.

Be that as it may, in money terms the above-mentioned 18% increase in net premiums amounted to R86,8m, against which claims (excluding related administration

SA Eagle's Martin ... *system will improve service*



costs) rose 33%, or R113,4m. The combination of these two reduced the underwriting profit by R26,6m.

But the overall turnaround in underwriting results was R57,5m. And the remaining R30,9m was attributable to costs and expenses of one sort or another over which the company must be said to have had some control.

A few examples: commissions paid rose by more than 30%, not significantly less than the increase in claims, which seems excessive as gross premium income was up only 12%. As a result, the ratio of commissions to gross premiums rose from 9,7% to 11,4% which means, to put it another way, SA Eagle received in 1990 only 88,6c out of every R1 paid in premiums against the 90,3c in 1989.

And then there were administration expenses (including those relating to the administration of claims) which were up 22% — way ahead of the inflation rate. These two items, commissions and expenses, together wiped R32,4m off profits (against R26,6m attributable to claims), leaving the one positive aspect, a reduction in forex losses, to round off the overall R57,5m reduction in underwriting results.

From the shareholders' viewpoint, however, the major disappointment was not the underwriting loss but the fact that investment income failed to grow. This the company attributes to the reduced cash flow arising from the large volume of claims payments.

Cash flow considerations were also probably responsible for the lower dividend, the first such reduction in well over a decade. It is unusual for a short-term insurer to cut its payout, because dividends are normally paid out of investment income and should not be significantly affected by what happens on the underwriting front. In this instance, the decision seems to have been influenced by the fact that 60% of last year's EPS derived from a deferred tax credit, a non-cash item. Cash earnings amounted to only 78,4c, which means almost half the 150c payout had to be funded from other sources.

Disappointment with the results is reflected in the share price which has dropped about one-quarter over the past 12 months. But while the current yield of 8,5% is not out of line with the sector average, it could be argued that the rating does not do justice to the strength of SA Eagle's balance sheet and, in particular, its 82,6% solvency margin. This, though down on 1989 is, as chairman Fred Haslett notes, still one of the best in the industry.

Also, and as the *FM* pointed out a year ago, the company is in the final stages of installing an elaborate new computer system — dubbed "Eagle 2000" — which, by mid-1992, will see all branches live on this online, real-time system. MD Peter Martin's view is that the system will offer improved service to brokers, agents and clients, better management information and higher productivity. This may put the lid on operating cost increases, and should also give SA Eagle a competitive edge within the industry.

It is not something that will benefit results this year but, as a prospect of better things to come, it might discourage further offloading of shares.

Brian Thompson

'Master' in bank merger

Business Times Reporter

FAST-GROWING Masterbond Trust Investment Holdings is flexing its muscle in banking.

Financial services group Novabank Holdings has been formed by the merger of Masterbond's Masterprop, Masterbond Trust Managers and Capital Asset Management operations with the 35-year-old Pretoria Bank.

A private placing of Novabank shares gives the group a consolidated capital base of more than R50-million, allowing it to comply fully with the requirements of the Deposit-Taking Institutions Act, says Novabnk managing director Laurence Perrin.

Mr Perrin says Novabank will provide many services, including personal loans, mortgage loans and finance, money and capital market broking, property investments, administration and valuations.

"The merger brings big synergistic benefits to both parties," says Mr Perrin.

"Shared technological development will cut costs and we will be able to pool our skilled staff and centralise administration and data processing."

The move has to be approved by shareholders at a meeting later this month.

Pretoria Bank limited its operations to the greater Pretoria area until two years ago when Masterbond acquired a 10% stake. New strategies led to assets under administration growing from R12-million to R135-million.

Growth

58

Cape-based Masterbond Trust increased funds under administration from R532-million to R1-billion in the year to February 28. Pre-tax profits jumped from R2-million to R6-million.

"The amalgamation will ensure continued growth," says Mr Perrin. "There is a niche for a smaller, highly focused and indepedent financial services group in an environment dominated by a few large institutions."

Bus/Times 15/7/90

Sage a key player in Absa, says Shill

58

By IAN SMITH

TROUBLED Sage Holdings, the financial services group which suffered a 10,7% fall in earnings last year, emerges from the dust of the Allied takeover battle as a likely key player in the new Amalgamated Banks of SA (Absa).

Sage chairman Louis Shill, one of the architects of the mega-bank, says the life-assurance interests injected into Absa by its acquisition of a 49% stake in Sage Insurance Holdings are important to the group's growth.

He brushes aside criticism that Absa paid over the odds in the share deal for the Sage Financial Services (SFS) interest.

"I wish it were so," says Mr Shill. "SFS brought its strategic interest in Allied into Absa and all the values established in the deal were the product of hard negotiations over a long period, due diligence analysis and independent valuations.

"But, far more importantly, an integrated financial services group requires a specialised assurance and investment arm.

(Bus 17) S Times 7/4/91

Expertise

"It is particularly important for a banking group to have a material interest in these fields, and the Sage interests helped to create a fully diversified grouping."

Absa's life-assurance interests through Sage Life and other holdings will become "very significant" and the new group has access to technical and marketing expertise which would have taken years to develop.

The SFS connection also gives Absa entry to mutual funds, comprehensive financial planning services and investment management.

LOUIS SHILL: They need us

In combination with the mine pension funds and Rembrandt Group, which are its largest shareholders, Sage participates in a 30% holding in Absa. Mr Shill is also one of Absa's three deputy chairmen.

Absa paid for its Sage Insurance Holdings stake by the issue of a little more than 20-million Absa shares, which, based on the UBS share price, valued that part of the deal at R152,4-million. Absa also acquired SFS's Allied holding for another 9-million shares. This had a positive impact on Sage's earnings and net asset value.

But Mr Shill points out that the P:E ratios of life assurers are traditionally higher than the P:Es of banks.

"This must be taken into account when the price is considered. We exchanged insurance assets with a higher P:E rating for banking assets. We were clearly not going to sell important interests at below accepted market yields."

He concedes that SFS is gaining access to a big market.

"But Absa gets from us an important position in strategic fields. I believe we have both got reciprocal value."

The birth of Absa fulfils a 20-year strategy for Mr Shill, who says Sage has been working since the late 1960s towards becoming closely involved with a truly integrated and diversified financial services group.

Sage came one step closer to banking in 1987 when it took a 10% stake in Allied — the largest shareholding it was allowed. "But the link with Allied did not work effectively because of strong differences between our views and those of some members of the Allied management," says Mr Shill.

The acrimony came to the surface in a clash between Mr Shill and Allied managing director Kevin de Villiers at a shareholders meeting in June last year.

Mr Shill says: "We tried unsuccessfully for three years to rectify the unhappy association, and we then entered into enthusiastic discussions with UBS to achieve the long-term aims.

"We were happy to commit our strategic holding in Allied to UBS.

"Absa could not have emerged in the form it has without the Allied interest."

Mr Shill believes that Absa has brought together very compatible institutions.

"There will be much more rationalisations in the financial services field, but I do not think there will be another deal quite as logical as this one."

He says Absa remains a very independent group — in some respects uniquely so. "Its size is a forerunner of more large groups to come."

Australia

SA bank groups will have to become bigger if they are to meet the challenges ahead.

"SA banks have not grown proportionately to the size of their major customers.

"In international terms our groups are small. Even Australia has banks three or four times the size of Absa, and we would be tiny in the US, or other parts of the world. Our banking groups must have the capacity to deal with the outside world."

Housing lenders in estate agency drive

(58)

S Times 7/4/91 (Bus T.)

BANKS and building societies are buying shares in estate agencies in an attempt to get more home loan business.

Many already have a stake the large estate agencies.

Those which have not made the move, among them First National and Standard, could be forced to open their own estate agancies.

First National senior general manager Jimmy McKenzie says: "We are doing good home loan business. But if we start losing some of it to competitors with a stake in estate agents, we will reconsider our position.

"We can set up estate agents in every branch and we have the biggest network of offices."

UBS Holdings declared its ambition to gain a share in the major estate agents three years ago. This foresight — attributed to chief executive Piet Badenhorst — has put UBS ahead of its competitors.

It has 25% of Aida, JH Wakefield & Sons and De Huizemark and 30% of JH Isaacs.

Strategic

Group managing director Mike De Blanche says: "Our policy is to make strategic investments in relatively large and influential estate agency groups.

"We do not want to own them, but we hope mortgage loans will come our way.

"We do not want to repeat the mistakes of the UK where financial institutions bought out estate agents. The sellers walked away from the businesses and there was nobody left to run them.

"We have secured all we want and have reached saturation point."

Standard Bank has concluded a "working agreement" with Camdon's Realty. Standard senior general manager Dennis Matfield says the bank has agreements with several other estate agents, but without any equity stake.

By DIRK TIEMANN

Mr Matfield says: "Management is important and our role is not to be part of it because it might expose estate agents to bureaucracy. Majority equity interests have been a disaster in the UK."

Standard has no plans to set up an estate agency under its own roof "at this time"

The Perm has shares in Basil Elk (25%) and Cape-based Durr Estates (25%). Head of the Perm's estate agency strategy Gian Sdoya says it is talking to others in the market.

Seven or eight large estate agents are accounted for and there could be a dozen likely candidates in the medium to large category.

Allied general manager Andre Latre says the Allied has no equity stake in any estate agents, but it has close, long-standing working arrangements with estate agents.

"We have not tried to dictate to them that they must support us. But we receive good support — even from those that have been bought into by others."

Nationalising no worry, says insurance firm

C/Press 7/4/91 (58)

OLD Mutual was "not perturbed" by talk about nationalisation, the insurance giant said this week.

"We have no shares to be taken over," the firm's chief operating officer Gerhard van Niekerk told *City Press*, explaining the company belonged to its policyholders.

Van Niekerk said that although the company did not categorise policyholders by race, above 45 percent of its individual policyholders were black, as were the majority of members of its pension and provident funds.

The firm's 25 percent increase in total earnings the past year to a record R10,6-billion also stemmed directly from a rise in the disposable income of black people, he said, adding it had added bonuses worth R876-million to pension, provident and religious institution funds which participated in the Guaranteed Fund system.

Over the past year the benefits paid out to policyholders amounted to more than R15-million a day, with a total benefit payout of of R3,7-billion.

"It was largely because of investment results like these that the largest trade-union negotiated retirement fund in the country was placed with Old Mutual during the past financial year," he said.

HAROLD FRIDJHON — in the Money Markets

High liquidity may jeopardise Bank's stringent money policy

58

B/Day 8/4/91

THE money market is knee-deep in liquidity in spite of the Reserve Bank employing several techniques to mop it up. If this condition is allowed to continue the Stals tight money policy could be endangered.

The visible signs of too much money chasing too few assets are:

☐ The five-times oversubscription in Friday's Treasury bill (TB) tender when R581m was subscribed for the bills on offer, R130m compared with the usual R100m. The outcome was a three point drop in the TB rate to 16,84% (discount) from the previous week's 16,87%;

☐ The seven-times oversubscription in last week's 15-day "tap" TB tender which drained R600m from the private banking system;

☐ The cut in the rate for 90-day liquid bankers acceptances (BAs) to 17,20% (discount) from the previous 17,25%; and

☐ The reduction in the banks' debt to the Reserve Bank — the so-called market shortage — to R1,15bn at a time when banknotes in circulation have soared to over R10bn, R1,2bn higher than the mid-March figure. The banks use cash to finance issuing of banknotes to the public.

The market shortage has reduced in spite of the Reserve Bank siphoning out R600m from the market last Thursday, in addition to a large unquantifiable amount in forward foreign exchange swaps.

The excessive liquidity in the market cannot be attributed entirely to the deluge of late Treasury cheques squaring up end-of-fiscal-year payments. An obvious reason for this hyper-liquidity could be an inflow of funds through a very favourable balance of trade in March, boosting the gold and foreign exchange reserves. It would not be surprising if the Bank's bullion stock has been increased because gold had been withheld from the weak market.

Unless Governor Chris Stals knows something we don't — which is very probable — he must be a little concerned. Too much money chasing too few assets must inevitably exert a downward pressure on rates, and not only the TB and BA rates. If the situation persists other rates will surely follow, tugging at Bank rate.

A determined effort might be made to sell off a few tranches of government bonds, and another tap Treasury bill tender could be offered to investors to roll over the 15-day bills when they mature. To entice the institutions the yield will have to be higher than that currently available, just as the rate on the tap TBs worked out higher than last Friday's rate.

If stock is offered it is more likely to be shorter-term, rather than long term. In the prevailing climate, with new instruments coming into the market, institutional investors will have to be tempted.

Merger creates financial services group

B/Day 8/4/91

LIZ ROUSE

A NEW financial services group, Novabank Holdings Ltd, will be formed out of a merger between Pretoria Bank and the financial services divisions of the Masterbond Trust group.

Novabank MD Laurence Perrin said in Cape Town that following a private placing of shares in the bank, the new group would have a consolidated capital base of over R50m.

Novabank would provide a spectrum of financial services including personal loans, mortgage loans and finance, money and capital market broking, and property investments, administration and valuations.

"The merger brings considerable synergistic benefits to both parties: shared technological development will reduce costs dramatically, we will be able to pool our skilled manpower into a formidable executive team and centralise administration and data processing."

(58)

In terms of the merger, Masterbond Trust Investment Holdings will be injecting its interests in Masterprop, Masterbond Trust Managers and Capital & Asset Management (CAM) into the new bank.

Sanlam trusts show faith in market by cutting back on liquidity levels

Sow 8/4/91

By Jabulani Sikhakhane

The five Sanlam unit trusts steadily reduced their liquidity levels in the March quarter to an average of 14,4 percent, compared with an average of 26,6 percent in December.

Sanlam general manager, unit trusts, Otto Jaekel says the reduction in liqidity levels indicates Sanlam unit trusts' confidence in the market.

Prospects for sustained economic growth in SA have improved in expectation of an end to trade and financial sanctions.

Liquidity levels in the five unit trusts were: Sanlam Trust 19,7 percent (28 percent), Index Trust 15,7 percent (26 percent), Industrial Trust 15,6 percent (24 percent), Mining Trust 12,3 percent (27 percent) and the Dividend Trust 9,1 percent (28 percent).

The Industrial Trust produced a return of 13,2 percent for the quarter, equal to growth of 93,9c per unit.

Index Trust was up 8,5 percent (89,9c/unit), Sanlam Trust was up 8,7 percent, or 113,9c, and Dividend Trust was up 12 percent, or 40,2c, per unit.

Although the Mining Trust's growth was 2,3 percent, it compares favourably with a decline of 18 percent in the JSE gold index and a rise of only 1,5 percent in the mining financials index.

The five unit trusts concentrated mainly on blue-chip shares, with important new holdings in Amgold, JCI and Waltons.

Over 2,236 million Iscor shares were bought by the five trust.

● The Board of Executors' Growth Fund is making its first payout — a distribution of 2,84c a unit, **TOM HOOD** reports from Cape Town.

The unit trust reported excellent results for the March quarter, yielding a total return of 9,4 percent for the quarter, which is sharply higher than the 6,8 percent yielded by the JSE overall index.

John Winship, senior general manager, says the BOE fund experienced a net inflow of R4,8 million in the quarter, increasing the total market value to more than R20 million.

The effective liquidity in the unit trust was about 20 percent at the end of March.

"The March quarter proved to be one of the most difficult quarters from an investment perspective. Market sentiment gyrated from euphoria to pessimism throughout the quarter.

"We considered it prudent to maintain a high level of liquidity and are delighted with the performance, despite liquidity of 20 percent on average."

The top five holdings are Anglos, De Beers, Richement, Remgro and Sappi. The trust holds no gold shares. About 43 percent of the trust is invested in the financial and industrial sectors, while 22 percent is invested in mining shares. Additional exposure to equity is through Transnet Elfi Bull stock.

Mr Winship says the share market, after bottoming in October last year, was in a clear bull market.

"The market in the short-to-medium term is currently overbought and is thus undergoing a correction. Weak company results over the remainder of the year might keep the market from running too far ahead."

Santam heralds bad news on VAT

B/Day 8/7/91

LIZ ROUSE

THE hard-pressed man in the street should brace himself for a hefty increase in short-term insurance premiums in October when VAT hits the insurance industry, says the latest issue of Focus, Santam's newsletter for brokers and agents.

The newsletter said an increase in premiums was definitely on the cards purely to cover the tax, adding that the imposition of VAT on the short-term insurance industry — from insurer and reinsurer to broker and agent — was "a staggering blow".

Claims ratios and the composition of each insurer's client portfolio would have some bearing on the extent of the premium increases.

"At this stage we do not want to forecast what the premium adjustment will be", Santam GM Koos van Tonder said. "In any event we will have to watch matters very closely in th early months of VAT to make sure nothing has been overlooked.

"It is most unfortunate that the government has decided to tax short-term insurers since of the approximately 46 countries in the world which have VAT, every single one, with the exception of New Zealand only, does not tax the short-term insurance company."

The newsletter said short-term insurance companies would be able to recover certain aspects of the tax paid on items such as stationery and furniture.

There were many links in the long VAT chain and Santam warned that brokers needed to address their own situations. To a large extent they would become tax collectors and commission paid to them would involve a certain tax aspect.

"When business is passed through a broker it will be essential to establish the real nature of the transaction — who is rendering what service to whom, what attracts VAT and what does not attract VAT.

"The selling of insurance and the collection of a premium is one transaction; the payment of commission is a completely separate transaction," Van Tonder said.

He said that unfortunately, at this early stage, there were no fixed guidelines on just how a broker should handle VAT.

58 620

Renewal notices for premiums which would include VAT had to be posted in some cases during July 1991, which allowed little time for vast system changes.

Reaching out to the masses

CM-7(1)B 8/4/91 (58)

THE banking sector is redirecting its focus, with the advent of the 90s bringing on a (hopeful) political amnesty, to reinforce the importance of the mass market.

Until recently, this uncatered for (majority) section of the population avoided the formalities of the financial system — opting to literally store money under the bed.

Township ingenuity through stokvels and other rudimentary "institutions" has allowed a more sophisticated type of savings to emerge among the black population.

Big banks aware of this untapped potential have been slow to repond because of the capital costs attached.

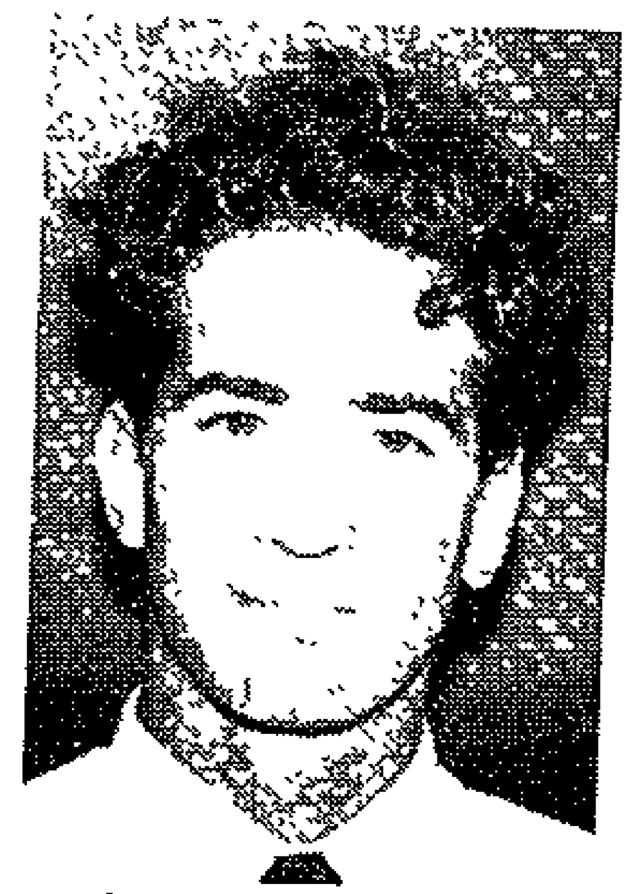
The problem — the smart card dubbed the "futurisitc card" for the masses is technologically-driven. It operates through Automated Teller Machines (ATM) and allows salaries to be deposited and drawn against.

But sharing banking facilities has provided a cure. Basic transactions networked through ATMs to spread the capital outlay across the entire banking industry.

This solution has accelerated strategies to corner the mass market. Take First National Bank's (FNB) card for miners. This type of product also serves to disperse the service points and so ease client concentration at banking halls.

In addition attracting many small customers to create the surplus cash (on aggregate) which can be loaned at a profit.

However, the risks of marketing to the masses should not be under-estimated. This sector is barely able to afford such services



Banks, Bonds & the Bourse

by ARI JACOBSON

— and could precipitate massive defaults. Conservative institutions have covered themselves by limiting their products to the lower-income earner.

The focus is on providing a savings service — bankers are less enthusiastic about extending loans.

And yet the myth that black customers boost a bank's risk exposure is continually being refuted by the sharp improvement in their payment patterns.

Suprisingly, basic banking services for the masses will also in future be aimed at upmarket clientele.

United Building Society's (UBS) Tienie van der Berg talks of cutting back on sophisticated payment methods such as cheques and credit cards at point-of-sale — to be replaced by a plastic card capable of deducting the purchase price instaneously from an individual's account.

Not suprising then that Nedcor cultivated the financial link with SA Breweries and a potential 3,5m customers through subsidiaries Edgars, OK Bazaars and Amalgamated Retailers (Amrel).

And FNB's tie-up with Prefcor which has Beares, Garlicks and Game in its stable. UBS has collected the estate agency trade to solidify allegiances at point-of-sale.

And for the Third World component — FNB is driving modern banking into rural communities with a mobile bank which activates an account through voice and thumbprint.

Banks now reaching out at grassroots to foster a connection with the masses.

Bank opposes move from JSE

(58) B/Day 9/4/91

SHARON WOOD

THE Bank of Lisbon has come out against the idea that life assurers' funds should be channelled away from the JSE towards new productive investments via banks.

The bank's March Economic Focus says this would not be a desirable way of providing finance for company investment.

Life offices — whose funds amount to about 30% of gross domestic investment according to industry sources — invest their funds in paper equities on the JSE.

Critics say it would be more beneficial if a larger proportion of personal and other savings were channelled by life offices into building societies and banks rather than the JSE.

It was doubtful if any improvement in corporate efficiency could be attained by a different mobilisation of capital, with more focus on the banking sector.

Critics of equity financed investment, however, cite Japan and Germany as successful examples of banks being instrumental in financing the expansion of industry. Capital markets are less developed and not as important as a source of external equity capital in these countries.

But there are strong arguments opposing any such structural overhaul of capital mobilisation in SA because it could open the way for state regulation of bank lending policies. This could lead to a misallocation of capital resources, the bank says.

The danger with a bank-dominated system of equity funding was that banks would become so risk averse that capital for creative entrepreneurial ventures would dry up.

Levies for finance watchdog 'negligible'

GILLIAN HAYNE

THE new levies on financial institutions to fund the Financial Services Board (FSB) were negligible, especially if they helped create a more efficient supervisory body, spokesmen in the financial services industry said yesterday.

They said it was a well-established principle that industry should bear the cost of a watchdog body, and it had accepted the extra levies imposed to fund the board's activities.

Old Mutual chief actuary Theo Hartwig said the creation of the FSB followed recommendations, preceding the demise of AA Mutual, that a professional body be formed which could act outside of government.

An independent body, funded by industry, would overcome the budget and staffing limitations of government departments.

Registrar of Financial Institutions Piet Badenhorst, who is acting executive officer until the FSB board members are elected, confirmed that a staff complement of 100 had been approved — compared with the current Financial Institutions Office staff of 73. BDay 9/4/91

Long-term insurers would have to pay R20 000 plus 0,004% of the liabilities under unmatured long-term insurance policies. Hartwig said the effect on Old Mutual — an estimated R1,5m — would be "trivial".

Consolidated Fund Managers MD Clive Fox said the principle of self-regulation was excellent and he wanted to see more stringent controls on registration requirements for portfolio managers and the type of service offered.

He said the R150 levy for portfolio managers was negligible although the total budget of R10m to R14m appeared excessive.

58

Various stockbroking firms said the levy of R11 000 did not appear onerous, especially since the amount was tax deductible.

Short-term insurer Aegis Insurance MD Brian Seach said the levies, which were unbudgeted, came at a difficult time as the industry was already in distress. He estimated that individual insurers could pay as much as R150 000 annually but was optimistic that with the right funding the FSB would provide a more efficient monitoring service which would ultimately benefit the consumer.

Short-term insurers will pay a levy of R30 000 plus 0,02563% of the gross premium income unless gross premium income is less than R10m a year.

The levies are payable annually not later than April 15, or in the case of the insurance industry in two instalments — 50% before April 15 with the balance due before October 15.

Sage Fund distribution

Finance Staff (58) (122)

Total assets under the management of the Sage Fund, the country's oldest unit trust, rose to a record R781,4 million at end-March this year while the Sage Resources Fund, a specialist unit trusts, also showed record growth to R54,1 million.

Star 9/4/91

In the 12-months to end-March the Sage Fund recorded a total return of 11,2 percent and five-year compound growth of 20,4 percent.

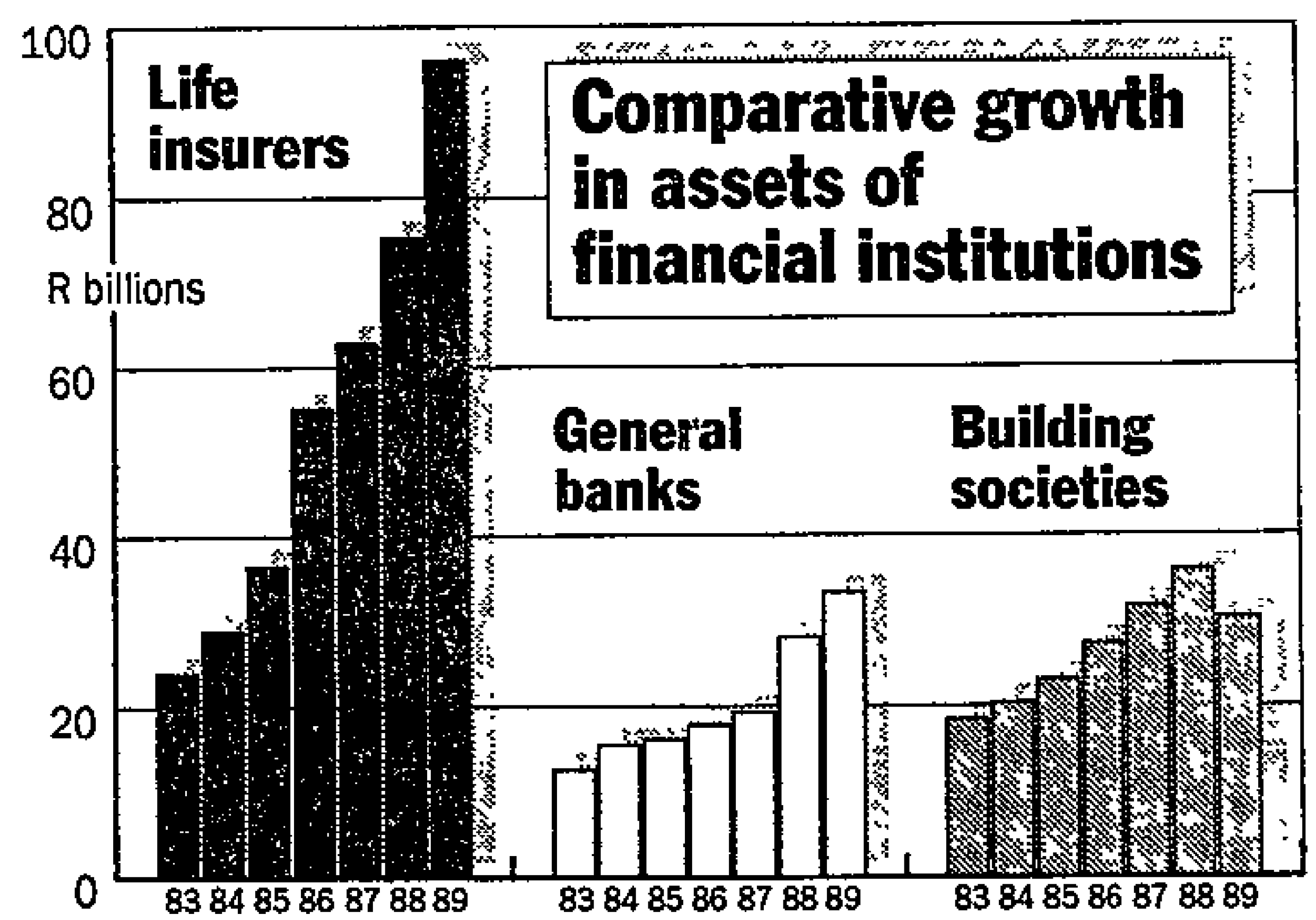
Following the change in the year-ends from December to March, income distributions have been announced for the quarter.

Sage Fund's distribution was 23,6c per unit and Sage Resources 2c per unit, increases of 20 and 7,3 percent respectively.

ANC's 'hidden agenda' threatens banking system

58

Star 9/4/91



By Sven Lünsche

Allowing banks to manage a larger slice of personal savings, which have been flowing increasingly to the life insurance industry, opens the way for state regulation of bank lending policies and could lead to a misallocation of scarce capital resources.

In a hard-hitting report, an unnamed economic consultant writing in the Bank of Lisbon's Economic Focus, says criticism of life insurers' investment policies is based on superficial reasoning.

The cash flows of long-term insurers have been growing by more than 20 percent annually for many years (see graph) and insurers now account for the largest share of personal savings and about 30 percent of gross domestic investment.

Against this background, the investment policies of insurers have been criticised on the ground that they prefer to invest in paper equities on the JSE, rather than in new productive investments.

The economist argues that this not only reflects a misunderstanding of the role of insurers in managing policyholders' savings and ignores the poor investment environment, but he also points to a hidden agenda by political groupings such as the ANC.

Insurance companies have been under pressure from the ANC to allocate funds to "socially desirable investments" and some sources within the organisation are suggesting that direct state intervention would be justified, he says.

"Critics of the role of life offices in SA are in effect advocating a strengthening of the banking system, and a reduced role for the JSE in financing industry.

"Such proposals leave the lingering suspicion that the hidden agenda could be the nationalisation of the banking sector. State control of the lending activities of banks could be greatly assisted by any such move," the economist says.

"The productivity of capital has already declined markedly and there is a danger that restructuring the corporate and banking structure to suit political groupings will only make matters worse."

He lists financial arguments against a stronger role for banks in managing personal savings.

"A particular danger with a bank-dominated system of equity funding would be that banks become so risk averse that capital for creative entrepreneurial ventures would dry up," he says.

Old Mutual 'joins Liberty battle'

B/Day 10/4/91

58

BRENT VON MELVILLE

THE latest twist on the Standard Bank Investment Corporation (Stanbic) speculation trail is that Old Mutual, in hand with Rembrandt, has joined the battle to win ultimate control of Liberty.

The market feels that gaining control of Stanbic would be a relatively cheap way of eventually getting control of LibLife Controlling Corporation (Libcor) which holds 52,5% of Liberty Holdings, and which is held equally by Stanbic and Liberty's chairman Donald Gordon.

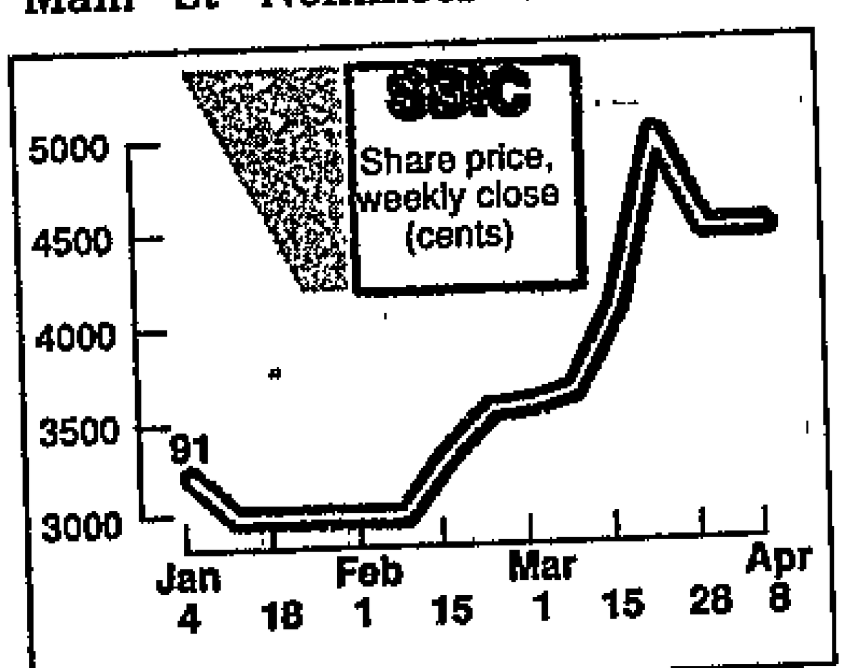
Speculation is that with control of Stanbic, the only obstacle to ultimate control would be the retirement of Gordon, 60, who has the right to remain chairman of Liberty and its subsidiaries as long as he wishes.

There's no suggestion of any differences between Gordon and Rembrandt — it's simply suggested that Rembrandt and Mutual are getting together in anticipation of Gordon's eventual retirement.

Says Gordon in Ken Romain's corporate history of Liberty, Larger Than Life: "So long as I am capable, and so long as I wish to be chairman of Liberty Life, I have the right to be so ... however, on my demise or retirement, the right to appoint the chairman reverts to Stanbic."

The speculation about the Old Mutual link follows earlier conjecture that Liberty and Rembrandt were discussing restructuring their shareholdings in Stanbic, with Rembrandt keen to trade its Stanbic stock for a direct stake in Liberty.

According to McGregor's, Liberty owns 32,5% of Stanbic. On March 20 Old Mutual had a direct stake in Stanbic of 12,83%, and an indirect stake through Capital Securities of 7,26%. Lesser stakes are held through 81 Main St Nominees and Common



Graphic LEE EMERTON Source JSE

Fund Investments, leaving Old Mutual's total holding at 21,5%.

Add to that Rembrandt's official holding of 10% (through Financial Securities Ltd) and its MFI Investments' 0,7%, and the joint holding of Old Mutual/Rembrandt looks similar to Liberty's.

With the 10,45% holding of Rembrandt-controlled Goldfields of SA (GFSA), the Rembrandt/Mutual combined holding is 42,65%.

A stockbroker yesterday felt a takeover attempt involving Old Mutual/Rembrandt was doubtful, and suggested Rembrandt would be loath even to consider such a move.

"Rembrandt isn't cash-flush enough to afford the purchase of significant Stanbic stock without borrowing — something it historically has a real aversion to doing," he said.

If any aggressive buying of Stanbic by Old Mutual/Rembrandt took place, this could have prompted counter-buying by Liberty, and with the minimal number of shares in issue, the share price could move up dramatically. Stanbic's price jumped from R31 to a peak of R51 before settling at its current R45.

Rembrandt executive director Johann Rupert this week confirmed that Rembrandt had been buying up stock recently but said it had now stopped. He declined to comment on the suggestion that Rembrandt was involved with Old Mutual.

He confirmed Rembrandt, which is based in Stellenbosch, had posted senior executive director Thys Roux to Johannesburg to improve its financial base/structures there.

While Rupert said only that it was "normal procedure", it is understood Roux will be replacing Thys Visser with effect from May 1.

Commercial claims high, says Gordon

B/Day 10/4/91

58

SEAN VAN ZYL

THE number of commercial and engineering claims last year was high, Guardian National's chairman Donald Gordon said in his latest annual review.

He added that these claims were compounded by "criminal activities", which were normally symptomatic of recessionary periods.

The level of crime adversely affected the short-term insurer's personal lines business

Gordon said that while insurers were forced to introduce premium rate increases across the board last year, "these rate adjustments have to date proved inadequate to balance the portfolio".

This had been a major factor in the industry's underwriting losses.

Should the present poor underwriting experience continue, insurers looking to raise capital from investors could run into problems if the industry was unable to provide adequate returns.

Higher interest rates during 1990 resulted in Guardian's investment income improving substantially.

This, he said, "partly" offset the company's R14m underwriting loss.

Mercantile Bank is set for another acquisition

(58)

GILLIAN HAYNE

SPECIALISED merchant and corporate bank Mercantile Bank — which has posted satisfactory results for its first full year of trading — is finalising negotiations to acquire a consumer finance operation.

The acquisition of what is believed to be the consumer operations of Investec, follows the company's stated aim of broadening its activity base and establishing a "well-spread and well-balanced banking organisation".

Earlier in the year, Mercantile acquired 70% of Unidev Registrars — renamed Mercantile Registrars. Bi Day 10/4/91

MD Derek Cohen said yesterday despite Mercantile's conservative approach and the prevailing poor economic conditions the results were reasonable.

Growth in assets and liabilities for the year ending December 31, 1990 increased by 33% to R163,4m with net income after tax and inner reserve transfer up a massive 549% to R650 000.

Cohen attributed the bank's strength to its 63,9% institutional backing.

Inflation no match for Sygro

B Day 10/4/91. (58)

LIZ ROUSE

SYFRETS' Growth Fund (Sygro) has beat inflation by almost 24% over the past three years by maintaining a policy of high liquidity, which was down only a shade under 33% in the March quarter.

The view held by Syfrets Managed Assets manager Anthony Gibson has been that greater commitment of liquidity into the share market could not be justified, given the current level of most indices.

In his March unit trust quarterly report, Gibson observes that Sygro's income distribution amounted to 3,17c over the review period, resulting in a total distribution of 13,08c for the past 12 months.

This represents an increase of 9,2% for the year. The total return (capital appreciation plus income paid) for the 12 months is 15,11%, boosting Sygro's compound annual return for a three-year period to 31,84% — comfortably exceeding the average rate of inflation of 13,97% over the same period by almost 24%.

Gibson said the poor performance of the gold price and its failure to react to the Gulf crisis, confirmed the metal was no longer a "bullet proof" insurance against economic and political tensions.

He is equally cautious about prospects for industrial equities, suggesting the recovery in the industrial index reflects a reaction from many buyers who feared being left out of the share price recovery.

In recognition that the interest rate cycle has now peaked and that a gradual decline in the rate will continue into 1991, Gibson says the maturity profile of Syfrets Income Fund has gradually been increased over the past quarter by investing in gilt and semi-gilt stock and a selection of deposits. The fund holds little cash.

Income distribution for the quarter of 3,83c has resulted in a total distribution of 16,20c for the past year — an income yield of 15,85% on the unit price 12 months ago. Total return (capital appreciation plus income) is 17,96% over the year.

Active GuardBank fund surges past R1bn-mark

58

BDay 10/4/91

LIZ ROUSE

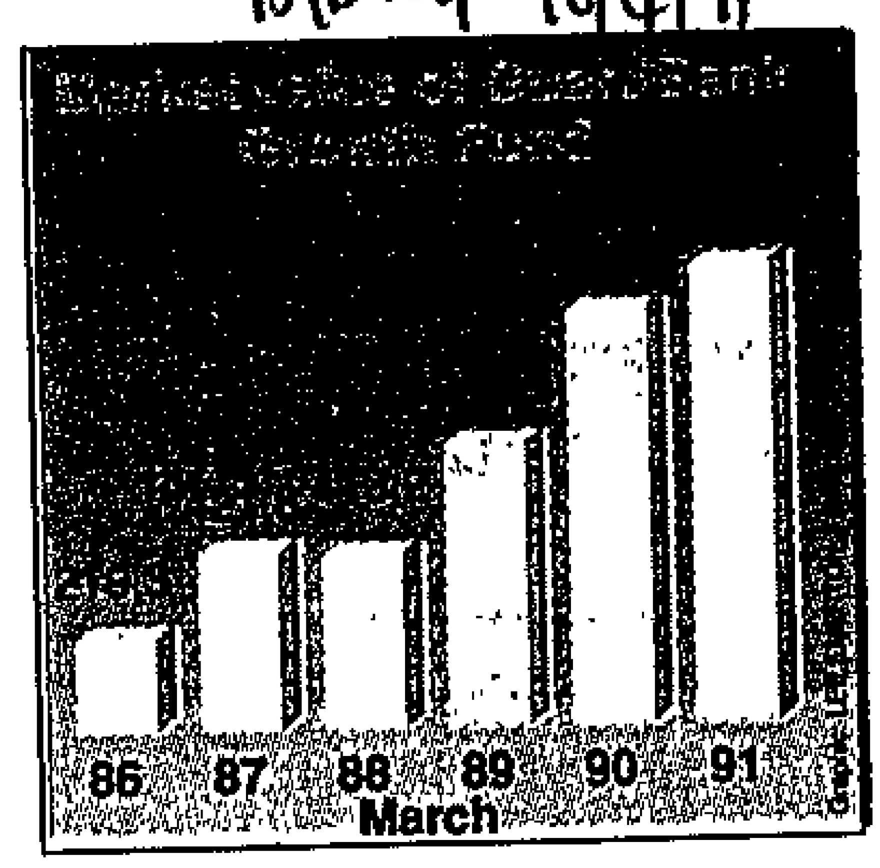
THE market value of GuardBank Growth Fund surged from R968,3m in the December quarter to just less than R1,1bn in an active March quarter.

The general equity fund was a more active buyer than in previous quarters, nibbling at gold and mining financial shares. The percentage of the fund's gilts, cash and other liquid assets increased from 22,74% (R220,2m in the previous quarter) to 23,29% (R255,3m).

GuardBank's flagship unit trust has lots of cash to enter the market in the event that the sharp upward move in world equity markets during the quarter is in fact discounting positive fundamental developments in international economies — as its portfolio managers believe.

However, GuardBank portfolio managers say strong and sustained growth in corporate earnings locally and abroad will be needed to validate current equity values.

GuardBank Growth Fund achieved a return of 9,6% (outperforming the JSE all share index advance of 5,8%), which, adjusted for dividend re-investment, reflected a return of 6,8%.



The fund concentrated on prime blue chip counters in the financial and industrial sectors. Selected additions were made to the fund's gold counters at lower levels (Western Deep Levels, Kinross and Gold Fields of SA ordinary and preference shares) while the holdings in Sasol, First International Trust and Liberty Life were increased, and 254 100 Stanbic shares were introduced.

The comparatively small holdings of 500 000 Barlows and 100 000 Minorco were sold while the UBS holding was lightened by 1-million shares. The equity content was virtually unchanged at 76,1% (77,26% in the December quarter).

GuardBank Resources Fund had a relatively satisfactory quarter, reflecting a return of 2,6% against a 17,9% fall in the JSE all gold index and a marginal improvement of 0,9% in the mining financial index.

The fund increased its equity content from 71,53% (R35,8m) at the end of December to 82,01% (just less than R42m) at the end of March. This was, to a large degree, facilitated by the addition of the cement producers' sector, and holdings of 60 000 Anglo Alpha and 50 000 PPC were acquired.

Two new precious metal counters were bought: 15 000 Western Deep Levels and 15 000 Rustenburg Platinum. Additions were made to Kloof, Western Areas and East Daggafontein. The fund also bought 2-million RSA 6,5% 1992.

The GuardBank Income Fund had a satisfactory quarter, reflecting a total return of 4,43%, compared with the all bond index return of 4,22%. The fund achieved record net sales for the quarter of R10,4m.

Total assets increased to R29,7m from the previous quarter's R17,9m,

Syfrets funds maintain liquidity

By Jabulani Sikhakhane (58)

The recent surge in industrial equities has bypassed conventional investor logic, which would suggest that investment fundamentals do not justify present price levels, says Syfrets Managed Assets Fund manager Anthony Gibson.

He says the marked recovery in the industrial index reflects a reaction by buyers who feared being left out of the recovery in share prices.

Mr Gibson says a rational approach to the realities of investment fundamentals would acknowledge that overseas economies will remain in recession or low growth until well into 1992 and that the local political environment will remain unsettled and unpredictable.

While in a gradual downward trend, interest rates will remain high and above the inflation rate. Company profits will bottom in the the first half of 1991 and are unlikely to show any material rise until 1992.

Institutional cashflows, continually looking for a home, would justify some recovery in share prices, in anticipation of improved fundamentals.

But the absolute level of share prices still gives cause for concern, he says. Star 18/4/91.

Syfrets' overall strategy continues to be one of holding a significant portion of assets in cash and facilitating the accumulation of investment opportunities as they arise.

In line with this strategy, only two new holdings were added to Sygro in the March quarter.

These were UBS Holdings and Unitrans. The fund made an increased investment in a number of existing holdings.

Sygro had an income distribution of 3,17c for the quarter and the Income Fund a distribution of 3,83c.

Guardbank questions equity values

By Jabulani Sikhakhane

Star 10/4/91

(58)

Strong corporate earnings both locally and abroad will be needed to validate the current equity values, says Guardbank in its unit trust review for the March quarter.

It says the sharp upward move in world equity markets during the March quarter is discounting positive fundamental developments in international economies.

Should these positive expectations not come to pass, it is not improbable that a more difficult period for equity markets may emerge.

During the quarter, Guardbank Growth Fund showed a return of 9,6 percent. Selected additions were made to the Fund's gold portfolio, while holdings in Sasol and other counters were increased. The Fund introduced one new counter, being 254 100 Stanbic shares.

The Guardbank income fund showed a total return of 4,43 percent for the quarter

It also achieved a record inflow of R10,4 million.

Stanbic has just about everything going for it

Star 10/4/91. 58

Diagonal Street

DEREK TOMMEY

It is difficult to keep the spotlight off a share which jumps 70 percent in a matter of six weeks.

It is impossible when the share in question is Stanbic, the holding company for the Standard Bank Group — probably still the biggest bank in SA, notwithstanding the newly formed Amalgamated Banks of South Africa (Absa).

In mid-February, Stanbic shares were 3000c. By the end of February they had reached 3500c, and by the third week in March they had jumped to 5100c.

They have now fallen back to 4500c — a price they are likely to hold.

The jump aroused considerable interest. After all, it added R1,7 billion to their market value.

However, with the benefit of hindsight and the group's annual report issued this week, it is not difficult to work out why Stanbic shares put up such a remarkable performance.

Quite simply, it seems that the publication on February 13 of its outstanding preliminary profit figures for 1990 alerted part of the investment community to the bank's worth.

Stanbic reported that it had increased it earnings by 23,9 percent in what had been a tough eyar. As Stanbic shares had shown no growth in the past 12 months and were standing 200c below their March 1990 level, these figures strongly suggested that Stanbic shares were seriously underpriced. This helps to explain their jump to 3500c.

The next strong move came in March when the Governor of the Reserve Bank Dr Chris Stals said he was reducing the banking sector's cash requirements by R1 billion.

This move will help the banking sector's profits in several ways. Because of Stanbic's size it stands to gain a great deal.

This accounts for Stanbic's shares rising to around 3700c. But the strength of the share started attracting speculators.

Buoyed by rumours that the Rembrandt Group was about to increase its stake in Stanbic, they pushed up its share to 5100c.

This was not a plausible rumour. A look at the bank's shareholders, published in its annual report, shows that Rembrandt had no hope of seizing control of the bank if Liberty Life and the SA Mutual were opposed to it.

Liberty Life and SA Mutual have between them 52,5 percent of Stanbic shares, and side holdings push this stake to 60 percent.

So Rembrandt, which owns just over 10 percent, or 20 percent if the Gold Fields' stake is included, would have been on a hiding to nothing if it ever made an attempt to gain control.

The market eventually realised this and Stanbic shares are now back to 4500c. This is 40 percent higher than a year ago, but by no means out of line with its prospects.

These look extremely good. With assets of R45 billion, Stanbic has the efficient size for which Absa is aiming.

It has spent large amounts improving its systems, which should start paying off soon. It has raised R290 million in debentures, which will make meeting the new bank capital requirments less onerous.

It is well placed to take advantage of any upturn in business. In addition to the freeing of some of its reserves, there is also the fact that banks usually make bigger profits when interest rates are falling tham when they are rising.

It seems that those investors who were perceptive enough to buy Stanbic at 3000c got a bargain.

Outcry over Bank's securitisation proposals

B/Day 10/4/91

ROBERT GENTLE

(58) (80)

AN outcry has greeted Reserve Bank proposals which would require major corporations to route their securitisation transactions through banks — and so incur added costs and bother.

The Reserve Bank has defended the proposal on the grounds that it would protect the banking sector from disintermediation, a process whereby corporations bypass banks and fund themselves directly from each other or from the public.

The proposal, in a Reserve Bank discussion paper, means that if a corporation such as a large industrial or mining company wants to securitise certain assets, it will have to sell them to a bank, which will perform the securitisation.

Sources in corporate, chartered accountancy and banking circles said yesterday the banks did not need such protection.

A leading corporate treasurer said: "If the new Deposit Taking Institutions (DTI) Act is founded on the need to protect banks, then it needs rethinking."

It is thought in some quarters that the Reserve Bank's caution on disintermediation is in part because of concern that securitisation could mean billions of rands will fall outside the ambit of the banking sector — and the monetary authorities.

However, a banking source said that all the monetary authorities had to do was ask for returns from corporates every time they wanted to securitise. "That's how it's done overseas."

Nico Marais, researcher at the office of the Registrar at the Reserve Bank, said that the original motivation for securitisation in SA was to redirect funds from the assurers to the banking sector. The Reserve Bank had already shown itself to be very accommodating in allowing disintermediation in the three- to 12-month maturity period through the creation of a corporate debt market, he said.

Wharton-Hood's survey has raised some hackles

Bdey 11/4/91 (58)

COMPARISONS are odious, and are particularly odious when they reveal, or even purport to reveal, that company A is performing less well than company B.

This is especially so in an industry such as life assurance where performance claims — and even sheer size — have become important selling tools.

So it is not surprising that independent life broker Richard Wharton-Hood (brother to Liberty Life's Dorian has become something of a by-word in the industry. For some, a very unwelcome by-word.

For Wharton-Hood has for 16-years published his Annual Investment Performance Survey of Life Assurers' Market-related Portfolios.

He has frequently come in for criticism, particularly from the under-performers. But, in general, the industry has co-operated by providing the figures he needs to compile his tables.

But several leading companies withdrew from the 1990 edition.

Wharton-Hood says in a foreword to that edition. "The 1989 edition has certainly caused a furore in the marketplace. Little did I realise that my innocent research would eventually become the subject of TV commercials and the source of a multi-million rand advertising campaign.

"It is, however, a very sad reflection of the attitude within our industry that the investment success and marketing flair of one life office should generate in other leading companies a type of hypocritical professional jealousy which at time has become almost hysterical in its attempts at self-justification and the endless search for excuses to place the blame for inferior performance as far as possible from its root cause.

Withdraw

"After 15 years of participation in this survey, one life office has now decided to withdraw from the survey on the grounds that it has no validity and serves no purpose for the industry.

"Yet the same life office produces a monthly marketing brochure reporting the investment performance of its various portfolios on a very similar basis and presentation format to the very survey it criticises so readily.

"I believe the time has come for all companies to stand up and be counted, to accept the bad times with realism and to make full use of the good times when it will be their turn to enjoy the spotlight."

While the withdrawal of AA Life, Liberty Life and Sage Life (and the inability, because of a merger, of Momentum Life to provide meaningful figures) has reduced the value of Wharton-Hood's tables as they now cover only eight companies, they are well worth reproducing.

The 16-year table shows the leading companies have performed well over that period, with investment returns that substantially outpace inflation.

The two-year table, a period selected because it reflects investment performance since the great stock market crash, is less flattering. And much less significant, of course, as both investment and life assurance should be regarded as long-term matters.

Asked to comment on the reasons for Sage Life's withdrawal, marketing director Bruce Ilsley said: "After careful consideration we decided to refrain from participating in the survey last year.

Nature

"The nature of the survey is such that our investment performance is unfortunately wrongly judged by the so-called comparative performance of our 'managed fund'.

"The property content of our managed fund has been significantly higher than that of all our competitors. Our decision to have a higher proportion of property investment is aimed at producing less volatile long term performance and at reducing the risk profile for the policyholder.

"Our competitors' managed portfolios, in contradistinction, usually have a much greater equity content and therefore an entirely different risk profile.

"We believe it is misleading to compare the performance of portfolios of such significantly different natures.

"In our view, the different bases for valuing certain assets are also not sufficiently stressed, thereby producing unrealistic comparative performance distortions, for example, gilts valued at market value, or cost, or adjusted cost."

He says a number of life offices are misusing the survey in order to attack competitors based purely on the comparative figures which might suit them in the particular manner in which they are presented.

Liberty Life's response was succinct. A spokesman listed some of the reasons why the company withdrew from the survey:

- The survey did not compare like with like in terms of the risk/reward profiles of the portfolio;
- The figures were not being audited; and
- Some companies were showing portfolios that represented a minuscule percentage of their assets.

Little-known BSCs play critical role in selling products

Bloay 11/4/91. 58

ONE of the lesser-known participants in the life assurance industry's sales chain is the broker sales consultant (BSC).

The function is essentially a back-room role.

Federated Life national sales manager Alvin Marshall says: "Not much is known by the public of the critical role the BSC plays in marketing life assurers products. This is simply because a BSC rarely if ever comes into contact with the end-user of the product.

"BSCs can be compared to medical sales representatives, who call on doctors to promote the virtues of their company's products in the hope that the doctor will prescribe them.

"There is, however, one major difference. The BSC has to promote and sell an intangible — and he has no samples to give away.

"The task of the BSC is made all the more difficult because he has to compete in a market where at least another 20 companies are active in their attempts to procure a slice of the lucrative broker sales market.

He says an estimated 40% of all life assurance business is written by independent and corporate brokers.

The key to a company's success lies with the expertise, reliability and professionalism of its sales force — the broker sales consultants, Marshall says.

"Most smaller life assurers prefer to hire experienced life assurance personnel for their broker sales force. Others tend to favour outsiders from other industries who are then put through various training programmes.

"At Fedlife, almost all our current new business emanates from broker sales, and though we regularly employ experienced BSCs from the industry, our favoured approach is to promote staff from within.

"Experience has shown that when someone has spent time in the branch dealing with broker and policyholder queries and has learnt to use the systems thoroughly, this individual generally has an 'edge' out in the marketplace."

In the final analysis the BSC who builds reliable and stable relationships with his brokers is the one who has the leading edge, he says.

"The broker sales consultant in the life assurance industry is the assurer's umbilical cord to its customers and policyholders."

Big challenges face all participants in the SA economy

58

BDay 11/4/91

MANY see the big life assurers as the fat cats that can be milked to help smooth the transition to the new South Africa.

Certainly they are big, and they do have enormous assets. But those assets are the undeniable property of their policyholders — and, in a few cases, of their shareholders also.

Life assurers are aware of the problems, and the issues have been aired at length in recent months.

One of the most important contributions to the debate is that of Development Bank of SA chairman Simon Brand at the recent Sanlam AGM.

Implications

"Changes on the political front have far-reaching implications for the life assurance industry, as they do for all sectors of the SA economy," Brand says.

"New challenges are being put to all participants in the economy, and new standards for success are being laid down, particularly from those circles that previously had limited say in such matters.

"Two types of questions have arisen for the corporate sector in this regard: firstly, what are the prerequisites for survival, with continued profits and with the maintenance of the interests of the shareholders or policy-owners, in the case of the assurance industry and, secondly, what contributions can the corporate sector make to constructive change in SA?"

SIMON BRAND

After noting that improved economic achievement is a vital requirement for the process of political change, Brand says: "Another issue in the politico-economic debate has to do with the utilisation of savings, especially as regards the flow to financial institutions such as the life assurers, pension funds, mining houses and other large groups of companies."

These institutions, he says, "are recognising to an increasing extent the necessity of correcting the imbalances between the developed and undeveloped parts of the SA economy.

"This realisation has resulted in a strong growth in the so-called social responsibility programmes of private enterprise.

"However, despite the value of these contributions, the private sector has an even more fundamental role in the upliftment of the less developed parts of the economy."

Brand then made what many in the life industry regard as a startling call for direct involvement.

"In the case of institutions such as life assurers, this could, for example, involve investment not only in the already developed rural areas but also in the business complexes, office buildings, factory sites and factory buildings and similar business facilities in less developed cities.

"In this way a material contribution could be made to improve the quality of life ... in those cities and towns.

"Although the idea is not that such investments should be made primarily for social reasons, but with the normal view to profit, private investors obviously cannot be expected to make such investments spontaneously.

Unknown

"Owing to the tradition of government dominance in these fields of the economy in the past, it is indeed an unknown field for the private investors.

"In addition, owing to structural and political factors and an atmosphere of violence in many of the araes concerned, the risks for investors are increased considerably."

He says it is essential to find ways, in collaboration with development institutions, such as the Development Bank and others, to identify the risks and to meet them in such a way and to such an extent that investments can be made with due allowance for the interests of the shareholders or policy holders concerned

With the Life Offices Association tallking to the Development Bank and other institutions, more will be heard of this approach in the near future, and there will clearly be a good deal of debate.

Those who believe the life industry's job is purely to invest for the best return while government gets on with the job of rectifying the injustices of the past were heartened by a recent report from two Pretoria University economics professors.

Coming out strongly against proposals that life assurers be directed to invest in economically or socially desirable areas, Geert de Wet and Niek Schoeman say it is the life assurers' task to invest where they can generate the highest possible return for investors.

The professors say: "If it turns out that investment in shares offers a lucrative return, but these funds then remain in the financial circular flow instead of going to large employment-creating areas, to infrastructure-creating areas or to actual capital formation, the fault lies with the economy which sends the wrong signals."

Liberty Life joint MD Dorian Wharton-Hood says life assurers should stick to life assurance and that upliftment should be the province of separate initiatives such as the R100m Liberty Life Foundation established by chairman Donald Gordon last year.

Protea favours direct marketing approach

B Day 11/4/91.

JUNK mail — or direct marketing? Irritating telephone calls — or direct marketing? Phony faxes — or direct marketing?

There are diverse opinions on the above topics.

Protea Assurance's executive director Jim Brayson says its its life division is an industry leader in direct marketing.

"In a country where the state pension is less than adequate, direct marketing can be of inestimable assistance in creating a receptive mood for the purchase of essential life assurance investment products.

"The method is of benefit not only to the assurer but to the broker and the man in the street as well.

"Direct marketing is educational and reaches the broadest possible spectrum of the population, ideal in an industry which has an universal appeal to investors from all walks of life."

Protea, a broker-only company that does not employ an agency field force, will not deliberately seek business from individuals who cannot be identified as clients of a broker, he says.

"Our direct mail, on the contrary, is likely to stimulate the recipient to discuss the package with a broker. In any event, all respondents are asked to name their broker, if they have one.

"Ours is a people business and there will always be a role for person-to-person counselling and thus for the broker, for whom our marketing methods are intended to be of direct benefit."

Brayson says Protea's direct marketing activities — conducted by direct mail and direct-response advertising — are confined to the company's basic product range.

Sanlam welcomes the steps to change 1943 Insurance Act

B[...] 11/4/91

(58)

WHILE life assurance and short-term insurance are two very different activities. they have shared a joint legal umbrella under the Insurance Act of 1943.

The Long-term Assurance Draft Bill, 1990 proposes to change this. Its very sensible purpose is to replace the 1943 Act as far as that Act relates to long-term assurance business. The remainder of the Act will be replaced by the Short-term Insurance Act, 1991, the draft of which has yet to be published.

Sanlam senior GM George Rudman says: "I think the separation of the two main elements of the present Act is a very sensible step and one which should be welcomed by both industries and other users of the Acts. There are a number of differences between the two forms of insurance and having two Acts seems a logical method of dealing with this."

The principal objectives of the draft Bill are:

- To regulate the continuing orderly development of a viable and innovative long-term assurance industry;
- To regulate the conduct of long-term assurance business with a view to ensuring, and thus giving confidence to policyholders and the general public, that it is carried on in good faith; in accordance with generally accepted assurance, accounting and actuarial principles and practices; and in a sound financial manner which aims to ensure that assurers are able to meet their obligations to policyholders and to satisfy the reasonable benefit expectations of their policyholders; and
- To protect and promote the rights and interests of policyholders in general.

The draft Bill goes on to define, in detail, five separate classes of long-term assurance business.

These will be:

- Assistance policies, which replace existing industrial, funeral and home service policies;

Disabled

- Disability policies, where benefits are payable to persons who become disabled or who contract a specified disease. Present disability, dread disease and personal accident benefits fall under this head;
- Life policies cover the provision of benefits when a person dies, if a person dies within a period, if a person survives a period or if a person is born. It also provides for annuities payable until a person dies or for fixed terms;
- Sinking fund policies allow for benefits to be payable after fixed terms independent of any life contingency occurring; and
- Fund policies apply where long-term assurers provide any of the above to a fund so that that fund can fulfil its obligations.

Curbs on corporate lending welcomed

Bi Day 11/4/91

ROBERT GENTLE (58)

LEADING bankers yesterday came out in strong support of Reserve Bank proposals to put limits on disintermediation, the process whereby non-banks fund themselves directly by bypassing the banking sector.

The proposals, part of a Reserve Bank position paper on securitisation and the commercial paper market, have provoked an outcry among industrial corporations, who question why banks should be protected in this way.

Bankers canvassed yesterday cited the likely loss of business that excessive disintermediation would produce, and expressed concern about the large flows of money that would fall outside the monetary system.

They said also that disintermediation would mean an uneven playing field for banks and large corporations, because the latter were not subject to the same liquid-asset and risk-management requirements.

Nedcor CEO Chris Liebenburg said corporate lending was a significant proportion of SA banks' lending business.

Volkskas Merchant Bank MD Jean Brown said: "You don't level the playing fields with Deposit-Taking Institution legislation, only to unlevel them by allowing disintermediation by entities that are not subject to the same regulatory requirements."

Trust Bank CE treasury Doug Anderson said an overlooked aspect was the effect disintermediation would have on the compilation of accurate money supply figures.

"Large flows of money would be outside the measurable part of the economy . . . the Reserve Bank could make policy decisions based on false information."

● Comment: Page 6

AIDS 'pandemic' a major unknown for the industry

WITHOUT any doubt, AIDS is one of the most serious problems of modern times. It affects people everywhere, in their life styles, and in their life expectations.

And for that latter reason — because AIDS is expected to become a major cause of death world-wide — the disease is of enormous concern to the life assurance industry.

The simple reason is that AIDS, as it spreads, could upset the mortality tables on which all life-assurers base their premiums.

Hence Liberty Life chairman Donald Gordon's apt use of the word pandemic in his recent chairman's statement, when he said "the AIDS pandemic was one of the major unknowns facing the industry.

Neither here nor overseas has the life assurance industry developed a cohesive approach to this problem. Some companies ask intrusive questions; some apply loadings; others apply exclusions.

While the macro problem is still to be addressed, here is one approach to a micro (but still serious) aspect — that of potential AIDS-associated death and disability benefit costs.

Southern Life general manager Graeme Lillie says: "For pension and provident schemes, there are two obvious approaches to insuring AIDS:

- □ "Either cover AIDS claims as one would any other disease; or
- □ "Exclude claims arising from AIDS."

5/11/89

Problems

The exclusion route presents several problems:

- □ It may be difficult to ascertain the cause of death. The death certificate will often only indicate immediate cause of death; and
- □ Should AIDS claimants be treated differently from claimants suffering from other diseases?

Southern Life has strongly recommended the implementation of negotiated employment policies which address the issue raised by AIDS.

'Heated debate' on taxation

BDay 11/4/91.

TAX RATES	Companies %	Max marginal &	Life Assurance &
South Africa	50	43	45
UK	35	40	25
Australia	39	47	39
New Zealand	33	33	33

SINCE the publication of the Margo Commission report in 1987, the basis for taxation of life assurers has been a matter for sometimes heated debate.

Other contenders for the public's savings, notably the banks and the building societies, maintain this is a case where the playing field is far from level.

They say it is heavily skewed in favour of the life assurers.

Life assurers, on the other hand, maintain their tax burden is already too high.

Damage

Any increase could seriously damage the industry — and prejudice the security of millions of policyholders and pensioners.

The life industry's view was expressed clearly by Liberty Life chairman Donald Gordon in his recent annual chairman's statement.

Since the report's publication, Gordon has said: "A considerable and sometimes acrimonious debate has emerged as to the basis on which life insurers should be subject to taxation.

"The extreme technical difficulties of defining taxable surplus in an industry in which contractural obligations and the attendant future financial risks — including those additional risks attached to the AIDS pandemic — typically extend over periods of 20, 30 or even 40 years, are universal and far from unique to SA.

"A further layer of complication has arisen through the contention of certain leaders of competitive financial institutions that their business suffers from disadvantage on tax considerations vis-a-vis life offices.

He says this highly vocal lobby has encouraged the pursuit of the nebulous and illusive "level playing fields" taxation approach for financial institutions which has greatly preoccupied government and the life offices since the publication of the Margo report.

Gordon's final point, after stressing the vital role played by the life offices, was a telling one.

"The policy of over-taxing life insurers with a view to curtailing their development and thrust to favour other institutions in the financial services industry is flawed and could do significant damage to the entire financial system which, in the special circumstances of the SA ecomony, is heavily reliant on long-term contractural saving and the function which this performs as distinct from the role of discretionary saving, which is fundamentally different."

An interesting comparison of the taxation treatment of life assurers in SA, and in the UK, Australia and New Zealand, has been made by Anglovaal Insurance Holdings CE Brian Benfield.

Referring to the table reproduced here, he says it shows just how onerous is the taxation of SA assurers in relation to counterparts in other countries.

Conclusions

He then draws the following conclusions:

- ☐ The tax rate applying to assurers' funds in SA is higher than the top marginal rate — and this in a steeply progressive tax table. The surveyed countries employ a representative rate; and
- ☐ Two-thirds of dividends are double-taxed in the hands of SA assurers; this has been eliminated in the surveyed countries; and
- ☐ Expenses are deductible in full in all surveyed countries.

"In short, SA life assurers are more highly taxed and on a less scientific basis than all other surveyed countries. This needs to be resolved without further delay," says Benfield.

Business Day SURVEY

The financial services industry, of which life assurance is by far the most important component, is in a state of considerable turmoil. As we move towards the new South Africa, the playing fields are being levelled, and the goal posts are being moved. ***KEN ROMAIN*** *reports.*

Fairy godmother is not likely to feature in new South Africa

BDay 11/4/91

NORWICH Life MD Charles Davies believes the industry should openly commit itself to change.

"The country is under pressure to change, but this time the pressure does not come from outside. It comes from within and the will to free society by political enfranchisement and the empowerment of its people to freely express their own aspirations and move towards prosperity.

Recognise

"While this augers well for the future, a prerequisite for a life assurer to participate in this process is for it to recognise its own values and openly commit itself to becoming a part of the challenge and pain involved in developing an environment for all South Africans to prosper."

This means there is no place for tokenism or plausible rhetoric but only real action, says Davies.

If a company wishes to foster the democratisation process it must ensure that its personnel and its policies reflect the society in which it operates, without either prejudice or cynicism.

Education cannot continue to form part of a social responsibility budget. It must have a purpose and strategy of its own so that financial support ceases to be charity but becomes an investment in educated people necessary to meet the challenges ahead.

Davies says there is pressure to devote policyholders' funds to the public good, although there is resistance to this. Reality will show that this country needs to mobilise all its resources to meet the vacuums so apparent — including homelessness, unemployment, inadequate education and health care — unless there is a foreign "fairy godmother" who wants to take over responsibility, which he doubts.

"The life assurance industry must become involved and cannot abrogate its integral involvement in the society. On the other hand it must demand and exercise prudence in its employment of the funds entrusted to it by policyholders and pension fund investors.

"In other words, it can't indiscriminatly ignore the responsibility it has to ensure reasonable returns to its clients, but it must also not take the easy way out and sit on the sidelines.

"The point is that life assurers must accept responsibility to commitment and to really participate, while the politicians must avoid the temptation of greed and irresponsible solutions," says Davies.

CHARLES DAVIES

New laws benefit policies for young

BDay 11/4/91

CHANGES in the Insurance Act in regard to children's policies have had a major effect on the sales of this type of assurance.

The two main areas are education policies taken out on the life of a very young child in order to, hopefully, pay the private school fees in the future, and life and/or endowment policies designed to give the child a jump-start in life.

Before the recent changes, investment in children's life and pure endowment policies was effectively restricted to R125 per family per month.

Now, up to R104 per month per child of five years and younger is possible, and up to R312 per month per child from ages 6 to 13

These figures are calculated by Sanlam on the basis of the combined result of the maximum death cover allowed by the Insurance Act on children's policies and the minumum level of death cover to qualify for a standard policy as defined by the sixth schedule to the Insurance Act.

Sanlam's figures for children's policies from October 1990 to February 1991 show significant increases over the same period a year earlier.

According to marketing actuary Jacques de Villiers, the number of policies sold rose by 53%, while the total annual premiums were more than doubled.

The average premium per policy increased by almost one-third.

De Villiers says: "The figures show the big need of parents to provide for their children's future. The amendments to the Insurance Act last year made this easier for them and were a step in the right direction."

Upsurge

Not surprisingly, the amendments to the Act have led to an upsurge in educational policies.

Liberty Life, looking at the changes in terms of cover rather than premium, says that the ceiling on life cover on minors has been raised from R250 to R10 000 on children up to the age of six, and from R500 to R30 000 on children between 6 and 14 years. It has brought out a Child's Education Policy.

Good inflow of funds to Standard

Star 24/4/91

(58)

Standard Bank's unit trusts reported a good inflow of funds during the March quarter, but the bear market in gold shares reduced the inflow into the Gold Fund.

According to the quarterly report, the Standard Bank Mutual Fund elected to take the scrip dividend from Standard Bank Investment Corporation which saw holdings in SIBC rise.

The fund's top five holdings are Richemont, Liberty Life, Liberty Holdings, Edgars and Gencor.

Income distribution is declared half-yearly.

The Standard Bank Gold Fund's portfolio activity during the quarter included additions to holdings in Southvaal, Kloof and East Daggafontein.

Income distribution is declared half-yearly.

The Standard Bank Extra Income Fund maintained its record of providing investors with real rates of return, with investment performance over one- three- and five periods showing returns of 17,7 percent, 17,1 percent and 17,5 percent respectively.

An income distribution of 3,54c (3,63c) has been declared. — Sapa.

Reserve Bank rescues CIB's small investors

Star 12/4/91 (58)

By Derek Tommey

The Reserve Bank is to help people with deposits in the troubled Cape Investment Bank (CIB), which was put into provisional liquidation yesterday.

This is the first time the Reserve Bank is known to have helped depositors. However, Reserve Bank governor Dr Chris Stals has made it clear that this action is not to be seen as a precedent.

At yesterday's liqidation proceedings in Cape Town it was reported that that CIB had assets of R842 million and liabilities of R852 million. But its liabilities are believed to exceed its assets by R49 million.

Some R39 million of its R410 million loan book is irrecoverable. Shareholders' funds amount to only R27 million.

Dr Stals said in a statement yesterday that in consultation with Minister of Finance Barend du Plessis it had been decided to protect to a limited extent the CIB's smaller depositors by means of a special assistance scheme.

Individuals with deposits of R5 million or less would be paid in full and as far as practical on the original maturity dates.

But depositors with more than R5 million would receive only the winding-up dividend on the amount above R5 million.

It is understood that only one organisation has deposited more than R5 million with the CIB. This is the SA Rail Commuter Corporation (Sarcc), which operates subsidised railway commuter services. Its exposure is estimated at R249 million.

No exposure

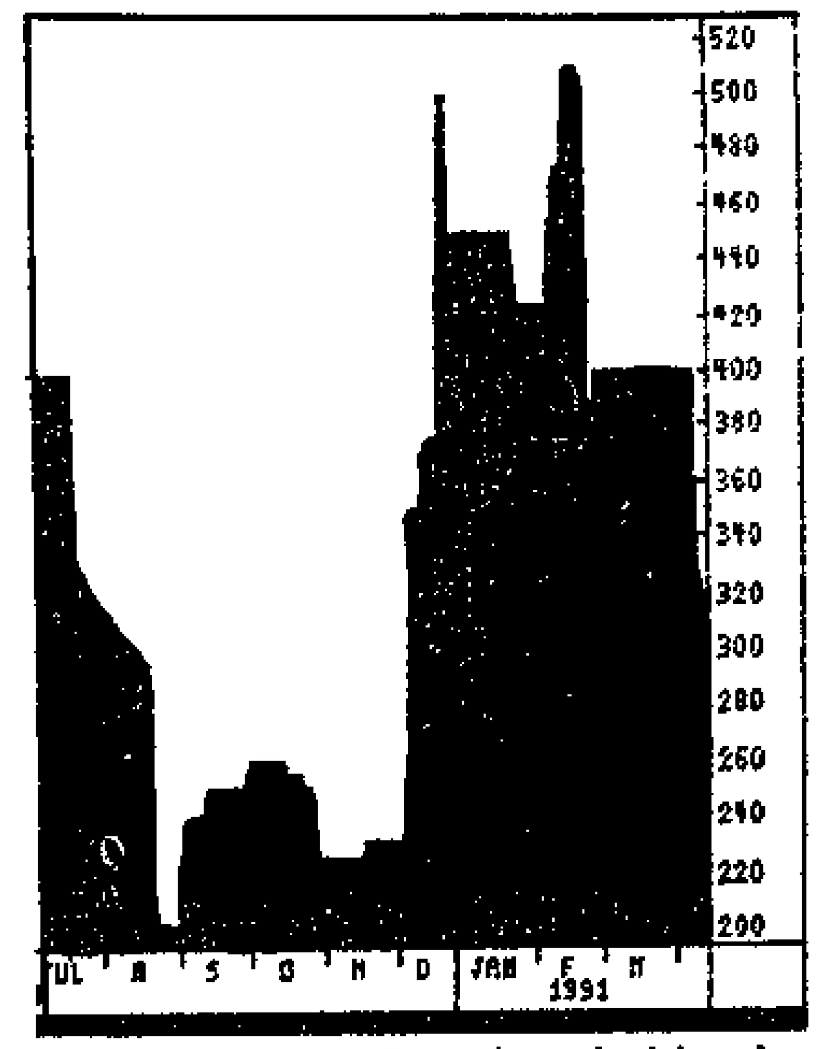
Peter Jordaan, deputy treasurer of Transnet, said today it was incorrectly stated yesterday that Transnet had R259 million invested with CIB. "We have no exposure to CIB at all," he said.

In his statement Dr Stals criticised investors for depositing large amounts with small banks. He said in the interests of sound competition it was desirable that large depositors should place deposits with bigger banks.

The Reserve Bank could not accept responsibility for the injudicious investment decisions of depositors.

The CIB was established in 1988 by Jan Pickard, jun. It later merged with Corbank.

Last December Prima Bank, a small merchant bank, acquired control of CIB Holdings, which



Picbel, a major shareholder in CIB, saw its share price plummet last August on news of the bank's troubles. It recovered at the turn of the year-but, has since slumped.

owned CIB, in a bid to keep the group in operation.

Subsequently a due diligence audit was performed by the auditors of CIB, together with an independent merchant bank and the Office for Deposit-taking Institutions.

They found that the problems that existed prior to the merger were of such proportions that from a business point of view and in the interests of Prima, it wa inadvisable to allow the CIB to continue its banking activities, the Deputy Registrar of Deposit-Taking Institutions, CF Wiese, said yesterday.

Analysts said the immediate causes of CIB's problems were a loan of R24 million to Transvaal Distillers Holdings, which was put into provisional liquidation earlier this year, and a loan of R14 million to the Quantum Group, a construction company now under judicial management.

But Jan Pickard Junior, the former chairman, blamed the bank's failure on the refusal of commercial banks to clear gilts for the bank, which hurt its core business.

Standard reports on social responsibility

W/mail 12/4 - 18/4/91

Weekly Mail Reporter

THIS year Standard Bank will probably spend more than R25-million before tax on "social projects of various kinds". In the past five years the group has spent some R90-million on social projects.

(58)

This information is contained in *Social Report* which accompanies the group's annual report.

For the first time interested parties can see from the handsomely produced publication what corporate social responsibility programmes Standard has contributed to. These range far and wide, from grants to educational and charitable institutions through assistance to small business and support of the arts and environmental institutions.

However, a breakdown of expenditure would be welcome — and some of the things included in the booklet as social expenditure — like sports sponsorship — don't belong.

ARGUS 12/4/91 CITY NATIONAL 58

Bank's liabilities exceed assets by R49-m, court told

By JOHN VILJOEN
Supreme Court Reporter

THE Cape Investment Bank (CIB) — which was allegedly trading while insolvent and which has liabilities exceeding its assets by R49-million — has been placed under provisional liquidation.

Mr Justice L A Rose-Innnes granted the urgent application, heard in chambers at the Cape Town Supreme Court yesterday, and ordered interested parties to show before May 14 why the order should not be made final.

The application was brought by Mr Christo Wiese in his capacity as Deputy Registrar of Deposit-Taking Institutions at the Reserve Bank.

CIB's offices are in the Picbel Parkade, Strand Street, Cape Town.

In an affadavit, Mr Wiese said an audit on CIB had revealed it was trading while insolvent.

An investigation into CIB's affairs was launched immediately by Mr Carel Oosthuizen, a senior manager in the Reserve Bank's Bank Supervision Department.

Mr Oosthuizen found CIB's assets totalled R842-million, of which about R311-million consisted of loans and issues of preference shares to 53 institutions and individuals, and the balance of other assets.

Of the R311-million, at least R39-million was bad debt.

CIB's liabilities totalled about R852-million, leaving a shortfall in share capital and reserves of at least R10-million.

Mr Wiese concluded CIB's assets could thus at most be valued at R803-million while its liabilities exceed this by at least R49-million.

The banking community and depositors in general were still nervous about the stability of smaller deposit-taking institutions such as the CIB since Alpha Bank was placed under guardianship last year, he said.

This sent a "shockwave" through the banking community during which deposits were withdrawn from the smaller institutions.

The banking community had not yet recovered from this and knowledge of financial problems at CIB could cause a new shockwave, which could seriously damage other deposit-taking institutions, he said.

During his investigation, Mr Oosthuizen found the Rail Commuter Corporation (RCC), which is government controlled, to be the largest single depositor with about R249-million.

In March, R103-million of this amount was repayable to the RCC but CIB were not able to come up with the funds.

Mr Oosthuizen persuaded the RCC not to take action against the bank at that stage because knowledge that the bank could not fulfill its commitments would "undoubtedly have caused a stampede" to withdraw funds from the CIB and other institutions, Mr Wiese said.

Liquidation would best ensure that all CIB's depositors got a proportionate payout, which would not happen in the event of a stampede.

FINANCIAL MARKETS

JSE vs BANKS

Discussions are under way to "synchronise" the Stock Exchanges Control Act and Financial Markets Control Act, with important long-term implications for the JSE and other financial markets. Discussions began in earnest when the Competition Board asked the Financial Markets Advisory Board to express an opinion on stockbrokers' fixed commission system.

The board, which consists of representatives from all financial markets and is chaired by Reserve Bank Deputy Governor Chris de Swardt, is expected to complete its reply by its next meeting at the end of this month. But discussions have been described as "sensitive" as they once again raise the conflicting views of two powerful interest groups — banks and stockbrokers.

JSE executive president Tony Norton was not available for comment, but acting president Paul Ferguson says: "At this stage, we do not support any change in the Stock Exchanges Control Act."

Others argue that SA is too small to allow so many self-regulated markets. The longest established self-regulated market is the JSE and the newest the SA Futures Exchange. The bond market is still not officially a self-regulatory body.

Bankers argue that the markets should be rationalised under one Act because of problems such as dealing in options on equities. "Banks need to hedge themselves in the equity markets," a banker says. "It's already happening informally."

Other arguments for rationalisation are the capital constraints of stockbrokers and to facilitate cross-market risk management.

Obviously, stockbrokers want to protect their territory and their single capacity trading status. "The stock exchange has always been a self-regulatory body and would not fall under the Financial Markets Control Act as it was not designed to incorporate the JSE," Ferguson says.

"Synchronising" the Acts would probably make it easier for the single capacity rule, fixed commission and unlimited liability status of stockbrokers to be changed, though the JSE would still be responsible for setting its rules and determining its structures.

Changes to the Acts could take some time, mainly because of the heated debate between the JSE and the banking industry during the initial consultation process. ■

INSURANCE FM 12/4/91 58

GENERAL ACCIDENT CASH BOOST

Major shareholders of short-term insurer General Accident have recapitalised the operation at a cost of R21m. So ends a strange family conflict involving General Accident, First National Bank, Southern Life and Wesbank. The mini-saga suggests that cross-selling of products, a catchword in the financial services sector, may not always be the road to profit.

General Accident, for special reasons, was particularly hard hit by last year's rate war and the startling increase in motor vehicle thefts.

The capital injection, from its Scottish parent and local shareholders FNB and Southern Life, should restore the balance sheet and protect solvency margins. General Accident has, almost from the outset, been seen as undercapitalised. Some observers add that this is a feature of the UK parent's international subsidiaries. This does not imply weakness on the part of Perth-based General Accident Fire & Life — more an attitude that local operations must stand on their own feet.

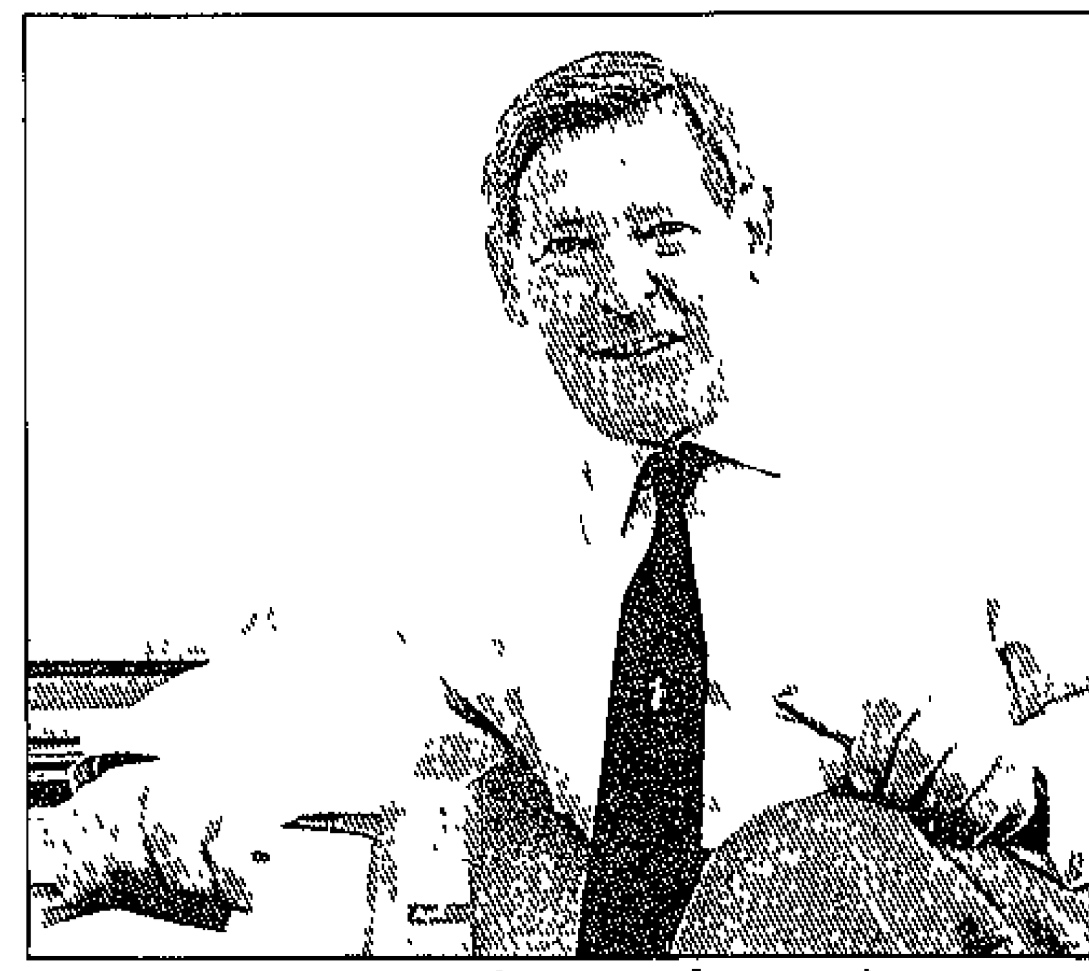
Nor is it any secret that management has felt constrained by the capital base which, if not enhanced, could have curtailed growth in premium income. Last year's *FM Top Companies Survey* ranked General Accident ninth in the short-term insurers' league in terms of assets, but fourth in premium income growth. These figures tell a story of new business strain.

Compounding past problems was a deal whereby FNB subsidiary Wesbank, one of the largest financers of motor vehicles, referred large amounts of business to General Accident. Because of the crime rate and other factors, the terms may have favoured Wesbank. The deal, cancelled by General Accident last year, created some acrimony between the respective CEs. Wesbank MD Peter Thompson emphasises the bank had a similar relationship with IGI — "and still has." That could imply that whatever went wrong was General Accident's fault.

Another inference is that Wesbank referred too much risk business to General Accident. Thompson denies this, saying Wesbank's lending criteria have not changed in five years.

Wesbank meanwhile introduced another policy underwritten by Hollard Insurance, Cover-Plus. If a vehicle is written off or stolen and the customer is caught short on what is due to Wesbank (because of the difference between comprehensive cover pay-outs and actual liabilities to the bank), Cover-Plus pays Wesbank the balance (with some exclusions). The premiums are paid, naturally, by the purchaser or lessee of the vehicle, because he then escapes personal liability for the outstanding money.

Hollard MD Miles Japhet does not feel the protection offered would have affected the lending policies of Wesbank, nor any other bank. In an HP deal, a bank's potential exposure often exceeds asset value and Cover-Plus takes care of only a small margin, he says. He feels General Accident's problems consisted of too much motor business at rates which were too low. Thompson notes: "There's no justification in suggestions that General Accident was getting bad business from us." Strangely, General Accident says it was unaware of the Cover-Plus policy.



GA's Blitz Bieber ... *heartening news*

FM 12/4/91 58

Recriminations apart, General Accident caught the brunt of the 1990 crime wave. GM Clive Dean says business from HP banks (mostly Wesbank) produced 7% of premiums but 40% of underwriting losses. "We've learnt that HP business from any source is not a way to easy profit."

After General Accident ended its Wesbank programme in December it laid off 39 staff, almost all associated with the HP business flow, from a total complement of 714. Dean said then that results to end-December would reflect serious underwriting losses but increased rates and elimination of unsatisfactory business would staunch the bleeding.

Audited results are not yet available but they will show an overall loss, with underwriting losses — "our worst ever," according to Dean — exceeding investment income.

The 1989 results included a small underwriting surplus of R273 000 after reserving R4m, with investment income of R19,8m. General Accident's experience since then has been dismal. Competitors say the company went for too much market share, too quickly, and did so by rate cutting. Dean denies this and, since most insurers were quoting unrealistically low rates at the time, General Accident's penalty seems severe. It has, since late last year, increased rates on the motor book substantially and recent comparisons find it in line with other insurers of similar size and service.

Chairman Blitz Bieber calls the capital injection "heartening news for a local short-term insurance industry being pressured by the economic climate." Tacitly acknowledging the difficulties of the previous capital base, Bieber adds: "Off our own bat we have worked wonders in building up local shareholders' funds from one of the smallest cap-

FM 12/4/91 58

ital bases of any leading insurer ... but the time arrived when a company of our size had to enlarge its capital structure."

Bieber also indicates that General Accident wants to expand outside SA. Dean adds that the UK parent has encouraged it to stretch its territorial boundaries.

Dean says that, with the pruning of motor business, there are already signs of a turnaround, which will become apparent in the second half of this year.

Bryan Deans

continue →

PRETORIA BANK FM 12/4/91

CAPITAL BOOST (58)

Under-capitalised Pretoria Bank plans to recapitalise and become part of a new financial services group, Novabank Holdings, which will be formed by merging Pretoria Bank with Cape-based Masterbond Trust Group, comprising Masterbond Participation Bond Trust Managers and its subsidiaries. They have had ties for two years. Laurence Perrin, Pretoria Bank MD since September, is also on the board of Masterbond and its subsidiaries and will be MD of the new group.

The first part of the plan is for Pretoria Bank to raise capital. A 27-for-10 rights issue at R3 will be made to its 450 shareholders, increasing the 2,4m shares in issue to 8,8m and lifting the capital base to R22,8m.

It is then proposed to offer Pretoria Bank shareholders Novabank Holdings shares one-for-one. If holders of at least 60% of Pretoria Bank shares accept the swap, Novabank Holdings will then raise its total equity to 17,5m shares, partly by a private placing at an average price of R3 to the existing client bases of Pretoria Bank and Masterbond Trust and partly by the issue of shares to buy Masterbond's financial services interests: Masterbond Trust Managers, which manages debenture and participation bond schemes; Masterprop, which is involved in property development and administration; and Masterbond Trust Financial Services, which won't operate for the time being. Novabank's total equity will then be R52,5m.

Novabank is underwriting the Pretoria Bank issue, again conditionally on 60% acceptance of the share swap. Its own placing is not underwritten but Perrin says it is already assured of enough takers to meet its commitment to Pretoria Bank.

The group will have three divisions: property; assets; and funding. It will continue to target "select individuals and corporations." Says Perrin: "On the asset side, we're looking for sound business which is well positioned in the new SA."

On the property side, the group will continue operating in resorts, hotels and forestry. Short-term insurance interests will be run in Pretoria Bank.

Pretoria Bank, soon to have a name change, will benefit from the additional capital while Masterbond will gain access to Pretoria Bank's client base. The new group will operate from Cape Town. *Heather Formby*

SBIC

NOT JUST A BANKING LEADER

58

FM 12|4|91

Activities: *Banking and financial services.*
Control: *Major shareholders include Liberty Life 32,2%; SA Mutual 20,3%; Rembrandt 10,7%; and Gold Fields of SA 10,3%.*
Chairman: *H P de Villiers; MD: C B Strauss.*
Capital structure: *98m ords. Market capitalisation: R4,41bn.*
Share market: *Price: 4 500c. Yields: 3,0% on dividend; 9,4% on earnings; p:e ratio, 10,7; cover, 3,2. 12-month high, 5 100c; low, 2 425c. Trading volume last quarter, 504 000 shares.*

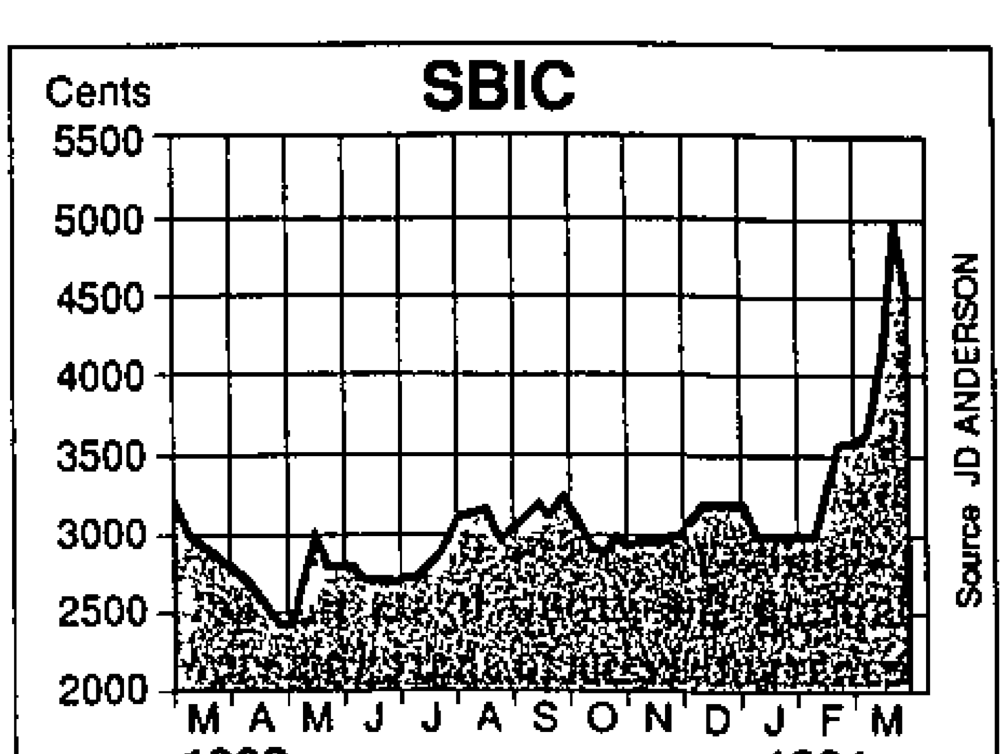
Year to Dec 31	'87	'88	'89	'90
Total assets (Rbn)	23,44	31,77	39,85	45,51
Total advances (Rbn)	18,99	24,23	30,15	34,96
Return on assets (%)	0,96	0,85	0,86	0,93
Return on equity (%)	15,7	16,8	17,8	19,0
Net income (Rm)	225	269	342	424
Attributable (Rm)	220	264	333	413
Earnings (c)	225	270	340	422
Dividends (c)	82	95	112	133
Net worth (c)	1 776	2 044	2 409	3 079

Standard Bank Investment Corp (SBIC) is firmly established as a profit leader in the banking sector. While competitors have reined in their balance sheets, held rights issues or sought mergers, SBIC has steadily increased its assets and shareholders' funds.

EPS and dividends have continued to outpace inflation; the return on assets remains comfortable and there is a real (and rising) return on equity. There should be no difficulty meeting capital ratio requirements under the new Deposit-Taking Institutions Act.

All this must be bullish. But recent share purchases have pushed the price beyond levels justified by fundamentals. Trading has been in small quantities, but in volumes sharply above usual averages; last month just over 2m shares or 2,1% of the issued ords were traded compared with 504 000 in the previous quarter.

No clear reason has been established. Some of the buying may be part of a rerating of the sector. Some may be ignorant speculation. But it is also being asked whether these are early signs of further rationalisation in the financial services sector. And Rembrandt is again being mooted as the major player.



SBIC's Strauss ... *margin pressures eased*

Major shareholders of SBIC at December 31 were Liberty Life 32,2%, SA Mutual 20,3%, Rembrandt 10,7% and Gold Fields of SA 10,3%. It is thus difficult to see how a change of control could result from the share trading revealed so far. Other deals could of course have occurred off the market, but there is no reason now to assume this.

Aside from the banking operations, the jewel in SBIC's crown is its effective 50% stake in Liberty. Though it does not now have outright control, it has apparently been agreed that SBIC will appoint Donald Gordon's successor when he ceases to be executive chairman of Liberty.

If Rembrandt was buying SBIC shares, as is widely held in the market, its motive remains unclear. Was Rembrandt, as some maintain, sending a warning shot across Liberty's bows, after Gordon was less than enthusiastic about the Absa deal? Perhaps, but that would go in the face of the previously warm relationship between the Ruperts and Gordon.

Or is Rembrandt, perhaps by arrangement with Mutual, shoring up its prospects of gaining eventual control of Liberty? A rationalisation of life assurance holdings involving Liberty and Momentum would be a prize worth chasing. Alternatively, is Mutual building up a blocking stake of 25% it could use to prevent such developments?

In any event, that theories such as these are common in the market underscores the fact that SBIC should be seen as a long-term investment whose value will ultimately be determined by more than short-term banking results.

That was, in fact, the case last year. A continuing squeeze on margins restrained the increase in after-tax profit to only 18%. Inclusion of the share of profit of associated companies — essentially Liberty and Fit — which rose from the previous year's R28,8m to R52,9m, left the bottom line up by 24%.

SBIC benefits from the special dividend and share distributions declared by Liberty companies. It also gained from an abnormal credit of R16m, being the attributable portion of a shareholders' stabilisation reserve transferred from the life fund of an associate to shareholders' reserves.

The group's interest margins have been in a downward trend since 1987, though the situation has begun to improve. CE Conrad Strauss notes that tight control over money supply, together with high nominal interest rates, brought a progressive softening of credit demand as the year advanced. Severe pressure on interest margins in the first half was alleviated in the second half as demands on liquidity in the system eased.

But the recession has also added to cost pressures. Strauss notes that the improved profit from widening interest margins was to some extent absorbed by rising bad debt charges in the second half. The total bad and doubtful debt provision jumped by nearly two-fifths, from R156m to R215m. This increase looks steep, but the amount was relatively good; in the year to end-September, First National's provision was R294m.

This provision contributed to a 25% rise in SBIC's operating expenses, which again outpaced the 22,6% increase in total income, so the non-interest margin has also weakened further. Staff costs were up by 21% — after 19,7% and 23,6% in the previous two years — and Strauss offers roughly the same reasons: a bigger payroll; increased employment levels at higher staff grades; and more intense competition for skilled people.

Other operating costs rose by 26%, to R808m, compared with the previous two

PROFIT SOURCES

Net income after tax

	1989	1990
	Rm	
SBIC	10,7	24,3
Standard Bank of SA	200,8	249,1
Stannic and Stancor	23,4	34,1
Standard Merchant Bank	26,4	30,2
Standard Bank of Bophuthatswana	17,6	21,8
Standard Bank Namibia	7,1	4,8
Share of retained earn of associates	13,3	17,4
Investment, finance etc	42,5	41,9
Total	341,8	423,6

continue .

P.T.O.

ADCORP (58) (illegible)

BANKING PARTNER

Senbank has recently been taking equity in clients such as Unidev and Cortech in an effort to relieve the debt burden of these groups. But its decision to acquire an effective 12%-15% interest in professional services group Adcorp was based on strategic considerations rather than any concerns about debt. FM 12/4/91

Senbank CE Hennie van der Merwe says closer ties with Adcorp will improve the services the group offers its merchant banking clients. "We have worked together for a long time but I believe the warmer relationship we will have with an equity stake will give us improved access to the group's services," he says.

Senbank senior GM Estienne du Toit has been appointed to Adcorp's board. Subsidiaries of Adcorp include TWS Communications, Admark Recruitment Advertising, JSA Design International and research firm Qualitative Consultancy.

Senbank will acquire its interest in Adcorp by underwriting a rights issue of 1,3m com-

FM 12/4/91 (58)

pulsorily convertible debentures of 90c each, with 18 debentures issued for every 100 Adcorp shares held. These are convertible on a one-to-one basis before January 1994. The issue price is equal to Adcorp's current share price and management, which holds 64% of the equity, have agreed not to follow their rights. Senbank will thus secure at least an effective 12% of the equity at the conversion. If none of the minorities follow their rights, this will rise to about 15%.

At face value, the transaction favours Adcorp. It provides the group with institutional support, raises R1,2m and ensures management retains control. Adcorp director and former TWS Communications MD Richard Wagner says the funds raised will be used to support the group's acquisition programme.

Last week, Adcorp announced a 6,5% improvement in attributable earnings to R1,4m for the year to end-December, but an increase in issued shares reduced EPS from 20c to 18c and the dividend was cut from 9c to 7c. Neither the results nor the Senbank deal has had much effect on the share, which last traded at 105c.

Simon Cashmore

CMC Times 12/4/91

58

Millions at risk

Staff Reporters

MILLIONS of government money is at risk after the collapse yesterday of the Cape Investment Bank Ltd (CIB).

The SA Rail Commuter Corporation had R249 million invested with the bank, which was placed in provisional liquidation in the Cape Supreme Court.

The bank's liabilities exceed its assets by about R49m, the court was told.

The Director-General of Transport, Mr Ronnie Meyer, would not comment last night but said the Minister of Transport, Dr Piet Welgemoed, would make a statement today.

The managing director of the SA Rail Commuter Corporation, Mr Kobus Nel, said last night he did not know the exact amount of the investment but had been surprised by the liquidation.

When the corporation learnt of problems with the bank in November it had taken advice from the Reserve Bank and others on whether it should pull out its investments, but had been advised not to do so.

The corporation's books were submitted to auditors yesterday to verify how much it had invested in CIB, and legal advice was taken as well.

"Commuters have no cause for concern," Mr Nel said. "Nor do any other financial institutions with which we have dealings."

Simultaneously with the court action the Reserve Bank announced a multi-million rand bail-out of CIB's small depositors. It would be taxpayers' money insofar as it came out of the Reserve Bank's profits.

The shock announcement hit the market via three separate statements released by Prima Bank, Reserve Bank Governor Dr Chris Stals and Deputy Registrar of Deposit-Taking Institutions Mr Christo Wiese

Although certain banks, such as Nedbank and Trust Bank, have in the past been assisted by the Reserve Bank to trade themselves out of their difficulties, this is believed to be the first liquidation of a bank in decades.

Dr Stals said only individual deposits under R5m would be protected under a special assistance scheme.

SA Rail Commuter Corporation had deposits in excess of R5m and would receive only a winding-up dividend, to be determined by the liquidator.

Dr Stals expressed concern that CIB had excessively large sums belonging to individual depositors on its books and warned that individuals could not always depend on the government to bail them out.

Prima Bank managing director Mr Johan Bellingan confirmed that neither Prima nor the Reserve Bank had detected the seriousness of the CIB situation earlier.

"At the time of the acquisition, things appeared better than they really were."

He also said "an investigation will determine whether there was any wrongdoing. If evidence is found, it will be turned over to the attorney general".

Prima would not lose a single cent as a result of the CIB takeover. "It was a waste of time, that's all."

Prima intended to maintain a substantial presence in Cape Town — one of the reasons for initially buyin CIB. Money, capital and futures market operation would not be affected by the liquidation. Retaine CIB subsidiaries would continue their normal cours of business.

Prima, under the command of Mr Bellignan, tool control of CIB in December from the previous owners the Pickard family.

In papers before the court Mr Wiese said the appli cation was urgent because CIB was still doing busi ness and must be stopped from taking deposits fror the public daily.

Mr Wiese said the bank's liabilities exceeded its assets by at least R49m, it was unable to pay its debts and, in terms of Section 344(e) of the Companies Act more than 75% of its share capital had been lost.

The application was urgent because the banking community and depositors in general were still nervous about the stability of small deposit-receiving institutions like CIB after Alpha Bank Ltd was placed under curatorship when it experienced financial and management problems.

"A shock wave went through the banking community after some of the nervous depositors withdrew from smaller deposit-receiving institutions. The situation has not recovered and word of financial problems and the imminent liquidation of CIB would cause a further shock wave which could seriously harm other deposit-receiving institutions," Mr Wiese said.

The decision was no reflection on the competence and integrity of Prima management, he noted. Prima was financially sound, profitable, and was not involved in any of CIB's problems

In terms of the order granted by Mr Justice L Rose-Innes, all interested persons must give reasons, if any, by May 14 why the provisional liquidation order must not be made final.

LIQUIDATION, BUT CAREL KEEPS HIS JOB

Staff Reporter

FORMER Western Province rugby captain Mr Carel du Plessis still has his job, despite the provisional liquidation yesterday of his employer, Cape Investment Bank Ltd (CIB).

The fast-moving former Springbok left wing declined to comment on the affairs of his company, but did disclose that he had not lost his job.

"As far as we are concerned, our trading, capital and money market divisions have been trading for Prima (another company with a controlling share in CIB) since the beginning of January," he said.

Mr Allan Greyling, who was the managing director of CIB until yesterday, said Mr Jan Pickard had been the executive chairman of CIB until December 18 last year, when a controlling share of CIB had been sold to Prima Bank Holdings Limited.

Mr Greyling believed fewer than 100 investors would be affected by the provisional liquidation. CIB had dealt in corporate loans, which it traded on various types of government stock, and in the futures and options markets.

Many of these operations had been transferred to Prima Bank since January this year, he said.

About ten members of CIB's present staff complement of 25 would be kept on by Prima, and the rest would be retrenched, he said.

The CIB had had more than 80 staff members last year, when it had also run an office in Johannesburg.

Mr Jan Pickard could not be reached for comment yesterday.

SATURDAY APRIL 13 1991

BUSINESS

Mutuals' R400m buying spree

W/C ARGUS 13/4/91 (58)

By TOM HOOD
Business Editor

UNIT trusts have returned to the stock market with a bang, buying about R400 million worth of shares in the March quarter.

They ploughed into the JSE all the R330 million that flowed into the industry, plus millions from their cash holdings.

This is disclosed by the Association of Unit Trusts in a review of the 38 funds for the quarter.

The general and specialist equity trusts' liquid asset levels dropped to 20,8 percent in the March quarter from 23,8 percent in December.

The reduction of liquidity vindicates a belief in some quarters interests rates could drop again and that the time is ripe to switch to industrial shares ahead of an upturn in the ecocomy.

The buying spree — believed to have ignored gold shares — could be one of the factors fuelling the rise in industrial shares to record levels and making some shares overpriced.

Mr Clive Turner, chairman of the association, said the equity funds were 75 percent invested at the December quarter and by March 31 this had risen to 78 percent for the general equity funds and 79 percent for the specialist equity funds.

The latest figures showed that over the past five years the general equity funds had performed exceptionally, achieving an average total return (that is, capital plus income) of 20,9 percent a year.

Total return achieved by the specialist equity trusts — which by their nature are more volatile and are targeted at those investors with a higher risk profile — while not as impressive, averaged 14,6 percent a year. This still compared favourably with the average inflation ~~rate for the~~ period, said Mr Turner.

In the high interest rate environment that prevailed it was not surprising the high income funds had turned in an excellent performance for the past year, he said.

Average total return for the eight funds for the past year was 17,8 percent and ranged from 20,3 to 15,5 percent.

Buoyed by higher industrial share prices, the market value of the 37 unit trusts soared 10,4 percent in the three months to R8 332 million.

Sales amounted to R577 million, the third highest quarterly sales level yet achieved by the industry, while repurchases at R247 million remained at around last quarter's level.

The R330 million net inflow into the industry was also the third highest, exceeded only by the R453 million inflow in September 1987, at the height of the last bull market, and R364 million in the March quarter last year.

Mr Turner said it was gratifying to see the steady flow of funds and investors into unit trust continued.

Easy entry

"We now have 37 different unit trusts managed by the country's leading financial institutions, all vying to perform well for their unit holders."

There were now more that 750 000 unit accounts.

"Unit trusts with their outstanding track record, their flexibility, and easy entry and exit terms are consistently proving themselves to be a form of medium to long-term investment that cannot be disregarded, either by investors or savers," said Mr Turner.

"Over time, unit trusts have proved to be the one sure way to protect one's capital against inflation."

Syfrets manages its way to the top

(Bus/T) S/Times 14/4/91. (58)

DIAGONAL STREET

By JULIE WALKER

ONLY four years old, but Syfrets Growth Fund has been top performer in the past three.

The unit trust is an indicator of the performance of management company Syfrets Managed Assets (SMA).

SMA differs from the public's image of the Syfrets group — that of widows, orphans and wealthy clients only.

Its launch in 1984 was not heartily approved by all in Syfrets, especially as it aimed to encroach on the territory of Nedcor stablemate UAL. But doubters have been proved wrong.

Assets under management have grown from R200-million to R3,7-billion.

SMA managing director Leon Campher says it was not easy to gather pension, provident and other fund management business because SMA itself had no track record.

Mr Campher saw that Afrikaans institutions, particularly universities, had been overlooked by SA's English-language fund managers. His bilingualism helped in securing management of some or all of the money of the universities of Pretoria, Stellenbosch, Orange Free State, Cape Town, Natal and Unisa.

Gradually, the number of pension funds under management grew, and SMA now runs more than 40 big funds. There are only five fund managers, each handling his own clients and visiting them quarterly.

They are backed up by a research team, marketing support, administration and are soon to have a computer system second to none.

SMA staff members and Andersen Consulting have devised a computerised total asset management system so good it has been sold to three rivals. Another few sales and it will pay for its development.

As Mr Campher says, SMA might as well sell it because others will devise their own, and "competent systems will improve market liquidity in time".

The system's biggest advantage is that it provides the decision maker with immediate information.

"What if this share is sold, this option exercised, this cash invested? Decisions are executed through the system, and anyone who needs to know about it is told."

Mr Campher says: "We developed it after a bit of soul-searching to see how we could be the best. Market research showed that clients want service just as much as performance out of their investment managers. That is why SMA's portfolio managers are also relationship managers."

Investment rules governing unit trust funds mean that the shop-window performance — compound annual growth of 31,8% a year over the past three — will not match that of the managers' other funds. But the investment approach is the same.

Stock picking is a major reason why the portfolios have done so well.

Unit trust manager Anthony Gibson shared a few of his own ideas as well as one or two borrowed from abroad on how to find value.

Mr Gibson says: "There must be a game plan, and that involves patience. We avoid bureaucratic dinosaurs, new issues and companies on low price-earnings ratios — they are there for a reason.

"A good company highly rated is preferable to a bad company than can be got cheap.

"Managements with equity stakes are a plus, and we avoid debt-laden companies. Those in niche businesses can withstand recession, and we prefer companies in businesses with high barriers to entry.

"Good management in a bad business will improve it, and a change in top management is often the signal we look for."

So far he has not gone wrong with this philosophy. Being the best does not entail being the biggest to the SMA team.

Remuneration is based on performance not only of the individual but of the team as well. In spite of outsiders trying to head-hunt, the SMA team core has been together for five years.

Staff members have been recruited to bring in expertise — a couple of former stockbrokers and bankers have come aboard in the past year to bolster expertise in dealing, futures and options.

Mr Gibson's view coincides with mine — the equity market is overpriced in the short term. He promotes Syfrets Income Fund on the view that bonds will outperform equity in the next six months.

Former TrustBankers make a go of their Mercantile venture

S/Times 14/4/91 (Bus/T) (58)

By DIRK TIEMANN

FORMER TRUSTBANK corporate finance specialists are finding a place in several niche markets for their young Mercantile Bank.

The R40-million acquisition of Investec's consumer finance operation is part of a plan to broaden the bank's base.

Mercantile Bank managing director Derek Cohen says existing bond and personal loan facilities will be expanded. The bank is also looking at the industrial instalment credit market for truck financing and other business. That would give it a place in the corporate, industrial and consumer market.

The corporate finance division is established, although Mr Cohen says business has declined.

The diversification should help to smooth out any drop in earnings in the corporate sector.

The bank opened in March 1989. Mr Cohen and Alistair Laughland left Trustbank in 1987 when they saw an opportunity to establish a financial services group.

Executive director Laughland says the bank is keeping a low profile to prevent building up unrealistic expectations.

"We make personal contact with potential clients," says Mr Laughland, who believes the bank will survive in the corporate and other specialised markets.

With backers like IGI, which holds 49% through Safegro, and Momentum which has 14,48%, Mercantile Bank does not lack outside confidence. Directors, management and staff hold the rest of the equity.

In its first full trading year to December 31, 1990, the bank made a modest taxed and inner transfer profit of R650 000. All the money was transferred to general reserves.

The bank has not paid a dividend and believes in ploughing profits back into the business.

Assets and liabilities increased by 33% to R163,4-million. Call advances are now only R2,2-million compared with R18,8-million for the previous 10 months. Cash and short-term funds total R54,3-million.

Mr Laughland says the bank will stick to the basics of accepting deposits and controlling overheads.

"We do not deal in the capital or derivative markets," he says.

The bank originally had a problem in attracting longer-term funds. Mr Laughland says call deposits are subject to repayments at a moment's notice, restricting the bank's longer-term lending.

Conquer

At the yearend, call deposits were only R32-million, 27% of a total of R119,5-million, compared with 88% in the previous 10 months.

The bank has increased its term loans by 130% to R63,6-million and they comprise 90% of all advances.

Mr Laughland says: "We are not trying to conquer the world in our first year, as our profits show. We are building for the longer term. No bank makes big profits at the start."

A capital base of R7,7-million puts the bank in the minor league. Mr Laughland says: "Our bank has exposure limitations when it comes to lending large amounts. Depositors have limitations on how much they will put with us — related to our capital."

Mercantile Bank was originally backed by the National Discount House, New Bernica Investments and Unidev.

Mr Laughland says: "National Discount House was taken over by Cape Investment Bank and we did not want to be owned by them. New Bernica's Arnie Witkin decided to return shareholders' money, wound up New Bernica and sold the cash shell.

"The Unidev stake (49%) did not make us feel comfortable because we believed they could not provide us with the necessary support. Momentum was the major shareholder in New Bernica and thought it could help with the winding up if it bought our shares. Safegro effectively bought the Unidev stake."

Mr Laughland says that at December 31 Mercantile had already met the 1995 capital requirements of 8% under the new Deposit-Taking Institutions Act.

DEREK COHEN: A place for specialists like us Picture: TOM EDLEY

Taxpayer to foot bill for failed bank

R69

58

S Times 14/4/91. (Bus/T)

By DON ROBERTSON

TAXPAYERS could be the biggest losers in the collapse of Cape Investment Bank (CIB) this week.

The State-controlled SA Commuter Corporation (SACC) which operates urban rail traffic for Spoornet has the largest exposure to CIB with deposits estimated at R239-million.

Minister of Transport Piet Welgemoed called on Friday for an investigation into the activities of the SACC relating to its capital, money-market and budget activities. He questions whether the SACC has operated "according to guidelines and authorisations". He has appointed "two authorities" to investigate the loss.

CIB was placed in provisional liquidation in the Supreme Court, Cape Town. It was said that its liabilities exceeded assets by at least R49-million.

In a rare move, the Reserve Bank agreed to a multi-million-rand rescue for some investors, but only those with deposits of less than R5-million. They will be paid in full, but those with deposits of more than R5-million will have to rely on the winding-up dividend.

A controlling interest in Cape Investment Bank Group which controls CIB was acquired by Prima Bank Holdings in December. It instituted measures to rationalise CIB, including closure of the Johannesburg office and selling certain divisions. In January, however, certain areas of "concern" arose regarding the acquisition price and CIB shares were suspended on the JSE.

Asked why the SACC had committed such a large amount to a small bank, managing director Kobus Nel said that when the deposit was made nine months ago, CIB was "not considered to be a small bank, but was recommended by the market and the Reserve Bank as an up-and-coming bank".

Effect

"Since November, however, we have been in constant touch with Prima Bank and the Reserve Bank, but there was no indication it would fold."

Dr Nel is unable to estimate what effect the bank collapse will have on the SACC because new audits are being conducted. He says the SACC budget in the past fiscal year was R1,2-billion.

Dr Nel believes it is "strange" that the bank should be liquidated with a shortfall of only R49-million. He also queries where "all the assets are in this".

Dr Nel says Prima Bank had control of CIB before it was put in provisional liquidation.

"We are taking legal opinion on this."

Chances

Johan Bellingan, managing director of Prima Bank, believes the "shortfall" is much more than R49-million.

"I know they (the SACC) are taking legal advice on Prima's position, but they can take opinion as much as they like. They have two chances — they can claim against a liquidated CIB or await the winding-up dividend."

Mr Bellingan says that when the bank was liquidated, SACC's deposits with CIB represented 84% of its total book. He wonders whether this was a wise decision.

"CIB was bankrupt when we took it over, but only after 'due diligence' did we discover the extent of the problem.

"We took it over because we believed it still had between R10-million and R20-million left, but it has al- ... ... out R60-million.

No debts, so no credit card

S Times 14/4/91 (S8) (AB) (Bus 17)

By DIRK TIEMANN

CREDIT is not easily available from the United's helping hand if you are under 25, have no financial record and have never incurred debts.

It seems that under-25s are regarded as too high a risk, even if they have a job and a savings account.

The manager at the credit card division in Pretoria says that without a financial record and trade references one has no hope of obtaining a card.

To qualify for the card it seems that an individual in his first job needs to own large assets and be in debt. The debt, it is explained, is required to check whether accounts at, say, Edgars or a pharmacist are paid regularly.

The credit manager says: "The bad-debt risk is simply too high. You can spend enormous amounts on a credit card before we find out. Apply for a cheque book and come back in six months."

The application for the card was made with request for a R1 000 overdraft facility.

Standard Bank says it has no set requirements for a credit card. Applications for a card are judged on a points system. The more information you put on your form the more points you earn and so qualify for a card. Sounds good, except if you have no assets or trade references.

First National Bank says there is no reason why an application should not succeed without trade references or assets. Important factors are whether one is married and has children. A wife is apparently a disadvantage, but children strengthen the case.

House ownership is also a factor and so is whether one has a savings account and a spotless record at the credit bureau.

I was assured that I could fill in the form and wait because "we do not work the same as other banks".

Naturally its easier if your parents have a card. Is that what is called inherited advantage?

Finally the truth. "See it our way, we only have what you put on the form."

Who was it that said banks give you an umbrella when the sun is shining and take it away when it rains?

Stals seems to be winning the battle against high liquidity

B/Day 15/4/91. (58)

THE Man with the Mop, Reserve Bank Governor Chris Stals, was active again last week soaking up excess liquidity in the money market to prevent rates from sinking and giving false signals to a recession-battered economy.

And there are signs that he is winning control of the floodwaters.

In the least-supported Treasury bill (TB) tender this year — only R213m was bid for the R130m bills on offer — the TB rate was nudged up two points to 16,86% discount from 16,84%. The rates on CDs (negotiable certificates of deposit) hardened marginally at the longer end. And the slightly bullish mood in the market appears to be evaporating in spite of the rate for 90-day bankers acceptances easing by five basic points to 17,15% from 17,20%.

Stals has largely de-watered the market. He drained off R1bn by means of short-dated TBs. Guesstimates suggest that at least a further R500m was swapped with the banks by means of forward forex deals. And there is talk of sales of other short-term paper to institutional investors.

The market's debt to the Reserve Bank — the so-called market shortage — was shown as R1,289bn on Friday, after R1bn had come back to the banks as a result of the monthly return flow of banknotes. If one assumes that the total cash withdrawn from the banks by means of the Reserve Bank's little manoeuvres amounts to R1,75bn, the market surplus would be of the order of R500m.

This would not be acceptable to the Bank which exerts its control over the rate structure by being a lender, the lender of last resort.

Deterrent

Last week I suggested that the Bank would try to withdraw funds permanently from the market by selling government bonds to the institutions. As far as can be ascertained, the Treasury through the Reserve Bank has not met with any success. Market talk is that bonds have been offered but there have been no takers because the suggested rates are too low. Rates have been distorted by foreign buying through the financial rand mechanism.

The inverse yield curve has been a deterrent to long term investment and institutions have focused on the very short end, keeping their resources liquid for real and more rewarding investments when the economy is pulled out of the trough.

Investors have at last come to accept that Stals is not bluffing and that interest rates are going to be held at a high level for a very long time. How long is anyone's guess but mine is that there will be only one further cut this year, and if more than a further two percentage points are pruned off prime in 1992 that would be generous. The proviso, however, is that the Reserve Bank's independence is left unimpaired.

Trade in both the money market and the bond market has been dull. The institutions are standing aloof. The finance houses are interested in short-term assets and with the slackness in the economy, an insufficient volume of acceptable assets is available at prices agreeable to offerers and buyers.

The rates on CDs have hardened, not only to tempt investors but also because the issuers, the banks and building societies, have become reconciled to accepting that Stals will not yield.

Cusaf to split its operations

Business Day Reporter

COMPOSITE insurer Commercial Union (Cusaf) would be split into separate life and short-term operations by the beginning of next year, chairman Andrew Gnodde said in the 1990 annual review.

The authorities' intention to pass two separate insurance Bills, one for life and the other for short-term companies, in the current year would require composite insurance companies to form different operations for their different business.

Cusaf had already looked at this eventuality, Gnodde said, and plans had been set in motion to rationalise the company's operations into a holding company with several subsidiaries by January 1 1992.

He added that the rationalisation would enable each operation to develop its own marketing and business strategy, resulting in greater efficiency.

Gnodde said: "The board is satisfied that the rationalisation will improve the efficiency of the individual operations whilst in no way detracting from the underlying fundamental financial strength of the group."

58

Despite a short-term underwriting loss of R14,9m for the year ended December, Gnodde said that Cusaf produced satisfactory results when seen against the poor underwriting experience of the industry in 1990.

BDay 15/4/91.

He noted that the incidence of crime and unrest was mainly responsible for the industry's generally poor underwriting performance. Gnodde said that these losses should lead to substantial increases in short-term premiums in 1991.

No distortion expected in money supply statistics

B Day 15/4/91 (58) (1480)

SHARON WOOD

A CORPORATE debt market — in which companies fund themselves through commercial paper by bypassing the banking sector — would not affect money supply figures, but would increase the velocity of money, analysts said last week.

The velocity of circulation is the rate at which money changes hands in the economy — an indication of individuals' desire to hold money.

The analysts were reacting to remarks in certain quarters of the banking industry that a corporate debt market — also known as disintermediation — could affect money supply statistics.

They said that initial doubt about the accuracy of money supply figures might be unwarranted. This was because although this financing occurred outside the formal banking system, the money would pass through banks anyway and thus be reflected in the statistics.

Activities in the corporate debt market would thus simply lead to a shift in the ownership of money but would not affect the overall level of activity, said Nedbank chief economist Edward Osborn. It would, however, accelerate the velocity of circulation of money.

The formal inclusion of the company commercial paper market in money supply figures was not desirable, said Reserve Bank economic head Jaap Meijer.

In the past disintermediation caused an underestimation of money supply figures, which are an important indicator of the economy's financial activity and are used to determine monetary policy.

But recently a substantial portion of "grey market" activities — financial activity outside the banking sector — was eliminated. In February banks were required to bring off-balance sheet financing back on-balance sheet in accordance with the Deposit-Taking Institutions Act.

The effects of reintermediation, when money outside the formal banking system is brought back into the system, on money supply statistics were shown in February. Money supply growth surged to 14,6%, while when the effects of the Act were taken out of the figures, money supply grew by only 12,2%.

In response to the question of whether the Reserve Bank planned to measure the size of the corporate debt market, a Bank spokesman said there was no immediate plan to do so. But it would probably be desirable to follow the system used by the Bank of England, he said. There, companies issue returns to the Bank.

The Reserve Bank's aim was to create a proper market which could be enhanced through adequate protection, said Reserve Bank Registrar researcher Nico Marais.

Big shift in Bank's 'baleout' policy

B/Day 16/4/91

ROBERT GENTLE

58

THE Reserve Bank's decision not to bale out large depositors in bankrupt Cape Investment Bank (CIB) and let them run the risk of losing their money signalled a significant shift in policy, leading bankers said yesterday.

The message was that the Bank would no longer automatically carry the can for imprudent investment decisions, they said.

The bankers were responding to the announcement last week that only CIB deposits of under R5m would be protected. SA Rail Commuter Corporation (SARCC), the largest single CIB depositor, stands to lose much of its estimated R239m investment.

Volkskas Merchant Bank MD Jean Brown said: "The next time it may not be R5m but R1m."

Rand Merchant Bank MD Laurie Dippenaar said: "It sends out the message that you have to do your homework — it seems this would apply to large and small banks."

Discount House Risk Management MD Julian Knopf said: "The new regulatory view in Pretoria is to force bank management to look at their risk profile and be accountable for it."

However, First National Bank senior manager Viv Bartlett said the Reserve Bank's action sent only half a message because small depositors had been protected. This had been made easy because SARCC was ultimately a government company, which meant the taxpayer would foot the bill.

● Comment: Page 6

Lawlessness threatens insurers

LIZ ROUSE

RESTORATION of law and order is essential to the survival of the short-term insurance industry, says Protea Assurance Company MD Tony Crank.

The situation has gone well beyond random pilfering into the organised theft of expensive construction equipment such as bulldozers and cranes. However, it is motor and personal lines that provide the bulk of the problem, he says in his annual review.

Prosure, which suffered a R40,5m underwriting loss in the year to December, received its worst blows in the areas of householders/all risks (a R7,1m loss, or about 18% of the total underwriting loss); the car account (a R12,2m loss, or about 30% of the total loss); and the motor fleet account (a R7,8m loss, or about 19% of the total loss).

There has also been an abnormally high volume of fire claims, says Crank.

The life division continued its healthy development. Premium income grew by an impressive 43% during 1990, with shareholders' receipts from life division profits rising 19%.

New recurring premium income, including direct-marketing revenues, exceeded forecasts by growing a substantial 75%.

The marine division, which has consistently shown healthy profits, was hit during 1990 by the downturn in the international economy and by the domestic crime wave, which led to an escalation in claims, says Crank.

(58)

The worldwide economic recession resulted in high competition for business, which was exacerbated by the flight of traditional marine business to Lloyds. The result was that gross premiums receded by 10% to R16,4m from R18,1m.

Bday 16/4/91.

Marine account

Domestically, the inland transit element of Prosure's business is vulnerable to theft and hijacking; an indication of the extent to which the year's crime trends affected this area is that claims settlements exceeded the 1989 level by a massive 78%.

In spite of these negative features, the marine account was again able to contribute R1m to 1990 revenues as a result of the transfer of the 1988 reserve.

Crank reports that life investment income on a comparative basis climbed 22% to R11,1m — a fine achievement in a poor investment climate.

Prosure faces changes of leadership at board and senior management levels this year, as both chairman Cecil Walton and Crank retire.

SA banks to lend R1,3-bn to LHDA

Star 16/4/91.

By Magnus Heystek

First National Bank (FNB) and the Standard Bank of South Africa have jointly been granted the tender for a loan financing-scheme worth R1,3 billion for the Lesotho Highlands Development Authority (LHDA).

Agreement has been reached in principle for the loan which will take the form of overdraft facilities and other money market instruments, Mr Viv Bartlett, a spokesman for FNB said last night.

"The loan should be regarded as seed money until longer term capital from other sources is forthcoming," he said.

According to an announcement yesterday, the signing is expected to take place within the next two months after agreement and approval of the detailed loan terms and documentation by the project authorities.

This long-term rand financing follows the R135 million and R750 million borrowing arranged last year. The earlier loans provided short-term bridging finance for LHDA. The new R1,3 billion loan is to be guaranteed by the SA government and will secure an important part of the long-term funding for the local currency costs of the project.

The loan is for a period of 16 years with capitalisation of interest over the six-year projected construction period.

A spokesman for FNB said that it was not the first time that FNB and Standard have joined forces on a large project, adding that they felt "more comfortable having another large bank as a partner".

Other joint working arrangements have been the Sua-Ash project in Botswana.

The announcement adds that additional long-term rand funding for the project as a whole remains to be put in place and is likely to be the subject of a further round of market competition later in the year.

LHDA intends working closely with the Trans Caledon Tunnel Authority, the project implementing organisation in South Africa, on the co-ordination of the fund raising programme. It also intends to tap the South African capital markets for competitive funding.

Further examination of LHDA's specific capital market programmes will be deferred, however, until the basic funding has been finalised which is expected to be in the middle of the year.

The LHDA has been working with its London merchant bank advisers, Chartered WestLB, for several years on the strategy and implementation of the project financing package. This is likely to comprise in excess of 25 separate facilities in at least six different currencies and with a wide range of characteristics, terms and inter-relationships.

Such an international project financing represents one of the largest and most complex exercises of its kind in progress in the world today, the announcement says.

US group starts feasibility study

Rockefeller plan for $5bn bank in SA

B/Day 17/4/91

(58)

GRETA STEYN

THE US Rockefeller Foundation has appointed a committee to investigate the feasibility of foreign involvement in development banking in SA to the tune of $5bn over five years.

Sources said the committee included former First National Bank MD Chris Ball, the vice chancellor of the University of Transkei and a Development Bank of SA director Wiseman Nkuhlu, National Sorghum Breweries manager Israel Skosana, a top American banker who still has to be appointed and representatives of the Rockefeller Foundation.

Investigations are being co-ordinated by an executive director of the foundation, Sally Bowles, who declined to comment on the appointment of the committee or on amounts involved.

But Bowles visited Development Bank of Southern Africa executive chairman Simon Brand and Independent Development Trust chairman Jan Steyn in SA a few weeks ago to discuss foreign involvement in SA development banking.

Brand confirmed this yesterday, saying: "We have also had previous discussions with the Rockefeller Foundation as well as with other interested parties, such as the World Bank and the extra-parliamentary parties — including the ANC — on a proposed new development bank."

The idea of establishing a new development bank in SA with the help of the Rockefeller Foundation was raised when ANC deputy president Nelson Mandela visited the US last year.

The first objective of current investigations will be to determine whether there was a need for a new bank operating quite separately from the Development Bank.

A major objective is to establish to what extent a lack of credibility hampers the Development Bank's activities.

Brand said his bank had offered assistance in the planning processes and had suggested using the expertise and capacity of the Development Bank rather than creating a new institution.

"It is our opinion that scarce financial and other resources like expertise and trained human resources should not be wasted by duplicating activities and structures of existing development agencies in the region," he said.

The $5bn the committee has discussed raising over five years is almost double the Reserve Bank's current level of foreign reserves and could provide a major boost to SA's capital-starved economy.

However, bankers are sceptical that such a massive amount of funds will be raised while banks are experiencing an international crisis and while there was strong demand for development funds from Eastern European countries.

Ball's involvement is understood to be aimed at facilitating raising capital and working out the practical exchange control details.

It is understood a US legal firm has already done a preliminary investigation into the feasibility of setting up a new bank and that it was in favour of a greater regional role for foreign involvement in development than just SA.

☐ To Page 2

Rockefeller plan

B/Day 17/4/91. (58)

☐ From Page 1

The document's conclusions have been studied by the Development Bank and the ANC. The latter has started a separate study into the bank's role.

At a conference on banking last year, the ANC emphasised the role of special banks in channelling credit to "sunrise industries" and other borrowers that could be regarded as special cases for subsidised loans.

The Development Bank has started gearing up for a more important role, which could follow soon as a result of the De Loor committee of investigation into development spending. The committee recommended changes to the bank's mission, membership and role.

Stir as Stanbic share capital move blocked

GRETA STEYN (58)

OLD Mutual created a stir at the Standard Bank Investment Corporation (Stanbic) AGM yesterday by apparently blocking a special resolution to increase the group's authorised share capital by about 20%.

Although a Mutual spokesman last night declined to confirm or deny that it had blocked the resolution, shareholders who attended the meeting speculated that it had. The Mutual called for a vote on the resolution, which requires that opposition be limited to less than 25% of those present. It was opposed by 25,9% of shareholders present.

The move apparently reflects concern about the large chunk of unissued shares that would be at the directors' disposal had the resolution been passed. Talk in the market is that Mutual was worried about the directors having 33,5% of the authorised share capital at their disposal.

The institution appeared to be questioning the independence of the Stanbic board. The power of its arch-rival and the biggest Stanbic shareholder, Liberty, was speculated to be behind the Mutual's thinking.

Stanbic's directors said in a statement yesterday: "It is widespread practice, especially in the financial services industry, for companies to leave a significant proportion of authorised capital at the discretion of the board to use as it deems fit in the interests of all shareholders."

It said the possibility of "financing growth" through the issue of shares could not be excluded and noted that shareholder approval was not needed for acquisitions valued at less than 30% of a company's worth. BDay 17/4/91

Mutual's speculated move could explain the dizzying heights reached by the Stanbic share price in the last weeks of March.

Stanbic's share gained more than 70% from the beginning of February to a peak of R51 on March 26 but has subsided by about R8 since.

Stanbic said the addition to the share capital was largely aimed at providing for share option schemes and the issuing of shares instead of dividends.

CAPE TIMES 17/4/91 (58) 38

US billions for SA?

Own Correspondent

JOHANNESBURG. — The United States Rockefeller Foundation has appointed a committee to investigate the feasibility of R13,5 billion being invested in development banking in South Africa over five years.

Sources said the committee included: the former managing director of First National Bank, Mr Chris Ball; the vice-chancellor of the University of Transkei and a director of the Development Bank of Southern Africa, Mr Wiseman Nkuhlu; National Sorghum Breweries manager Mr Israel Skosana; a top American banker and representatives of the Rockefeller Foundation.

Investigations are being co-ordinated by an executive director of the foundation, Ms Sally Bowles, who has declined to comment.

Ms Bowles visited the executive chairman of the Development Bank of Southern Africa, Dr Simon Brand, and the chairman of the Independent Development Trust, Mr Jan Steyn, recently.

Dr Brand said yesterday: "We have had previous discussions with the Rockefeller Foundation as well as other interested parties, such as the World Bank and the extra-parliamentary parties — including the ANC — on a proposed new development bank."

The first objective of investigations is to determine whether there is a need for a bank other than the Development Bank of SA. Another is to establish the extent to which lack of credibility hampers the Development Bank of SA's activities.

Banks 'ready to lend to SA again'

(58)

B Day 18/4/91

CAPE TOWN — International bankers had indicated that they were ready to start renewing the flow of foreign loans to SA, Finance Minister Barend Du Plessis told Parliament yesterday.

LESLEY LAMBERT

In his reply to the Budget debate, Du Plessis said: "There are international bankers who have given us a clear indication that they believe in the integrity of our leaders and are willing to begin putting their money where their mouths are."

Foreign loans and investment were crucial for the economic growth required to meet the socio-economic needs of all South Africans.Renewal of foreign loans would make the difference between growth and stagnation.

Government had done everything in its power to restore economic growth and it was on this basis that foreigners were ready to start re-investing in the country, Du Plessis said.

But he reiterated that renewal of foreign investment would be conditional on the outcome of efforts to resolve the problem of township violence.

Resolution of the violence would depend not only on effective policing. The underlying causes, one of which was poverty, would also have to be addressed by comprehensive strategies, Du Plessis said.

The start of negotiations would also have a positive spin-off for SA economic growth and development. There was broad consensus in Parliament, with the exception of one party, that the negotiating process should begin as soon as possible.

Another factor which would determine the extent of foreign investment in SA was the competitiveness of returns achieved from investments in the country.

Du Plessis warned that the economic restructuring programme would require sacrifices. He called on the private sector to make a greater effort to apply its capital and technology to areas which would create new jobs and foster wider economic empowerment.

He conceded, however, that government spending on social services would be lower this year than in 1990.

This, said DP finance spokesman Ken Andrew, came as a nasty shock to people who were "fooled by the good intentions of the Budget speech"

Responding to Du Plessis' speech, Andrew said: "Stability is a prerequisite for economic growth. Poverty, inequality and unemployment are major causes of violence and unrest.

"Now Minister Du Plessis confirms that in respect of poverty, housing education, health and unemployment, things are going to get worse in 1991.".

First local rating for private sector bank

ROBERT GENTLE

SOUTH AFRICA'S only rating agency has completed its first rating of a major private sector bank, rumoured to be First National Bank by market sources.

Republic Ratings confirmed that it had just completed a rating of "a major financial institution," but said it was not yet able to divulge details. (58)

An FNB spokesman said it would be inappropriate to comment on market speculation, but said the bank supported bank ratings. B Day 18/4/91

Bank ratings are also supported by the Reserve Bank, which has recommended ratings as an independent yardstick for investors and regulatory authorities.

Overseas, it is common for regulatory institutions to use ratings by agencies such as Moody's and Standard & Poor's to help indentify and control credit risks.

"The insolvency of Cape Investment Bank and the decision of the Reserve Bank to let depositors suffer the consequences underline the importance of bank ratings," said Republic director Gideon van Rhyn.

He said that inadequate levels of disclosure in local banks had increased demand for formal ratings from overseas banks and companies keen to invest in SA.

Republic has already rated a number of companies such as Eskom, the Post Office, the Land Bank, and Transnet.

Low liquidity boosts Old Mutual fund

58

B/Day 18/4/91

LESLEY LAMBERT

CAPE TOWN — Old Mutual Investors' Fund has maintained a relatively fully invested position during the recent weakness in the market and is in a position to maximise investors' returns over the medium to long term, fund managers said yesterday.

The latest performance figures, compiled by Pretoria University, indicate that the Investors' Fund occupied a top position in the industry over the past five (23,22%), seven (23,95%) and 10 (24,7%) years.

The total assets of all five Old Mutual unit trusts increased by well over R200m during the past quarter to more than R2,6bn, indicating healthy investor confidence in the funds.

Investments assistant GM Rowland Chute said share selection for the funds was based on value and medium- to long-term growth potential. "Old Mutual trusts do not speculate for short-term growth. We concentrate our efforts on structuring portfolios for the best results over the longer term."

This strategy had contributed to the Investor's Fund's record distribution of 60,95c a unit, Chute said.

"This represents a total of almost R80m being paid to the Investors' Fund's more than 257 000 accountholders. A large percentage of these investors choose to reinvest the substantial income to boost performance even further," he said.

During the last quarter, the Investors' Fund made major purchases in Iscor and TSI and sold its entire investment in Sentrachem.

The 10 largest holdings in the Investors' Fund are Anamint, De Beers, Richemont, Rembrandt Group, Safren, Barlows, Iscor, Anglos, Sasol, JCI and Anglovaal Industries.

Responding to strong movement in the JSE's industrial counters during the quarter under review, the Industrial Fund concentrated on those shares which continued to offer good relative value, Chute said.

Big rush for two new schemes

(58)

Star 18/4/91

Market response to the two unit trust schemes linked to endowment or retirement annuity investments offered by Sage Life has been exceptional — and Multilink and Sagelink are the two top performers among the seven investment vehicles offered by Sage.

The big advantage of the schemes, says marketing communications manager Michael Belling, is flexibility.

"The client decides what he can afford to invest and what life cover he requires — and we allocate the funds accordingly. The lower the life cover — which may go right down to zero — the greater the investment in unit trusts . . ."

Another advantage of the RA is it provides a valuable opportunity to buy unit trusts with pre-tax income.

"Our calculations indicate that, at the end of the day, the tax benefit of buying unit trusts this way is enormous. A person paying a high marginal rate of income tax can aquire his unit trusts for as much as a 40 percent discount," he says.

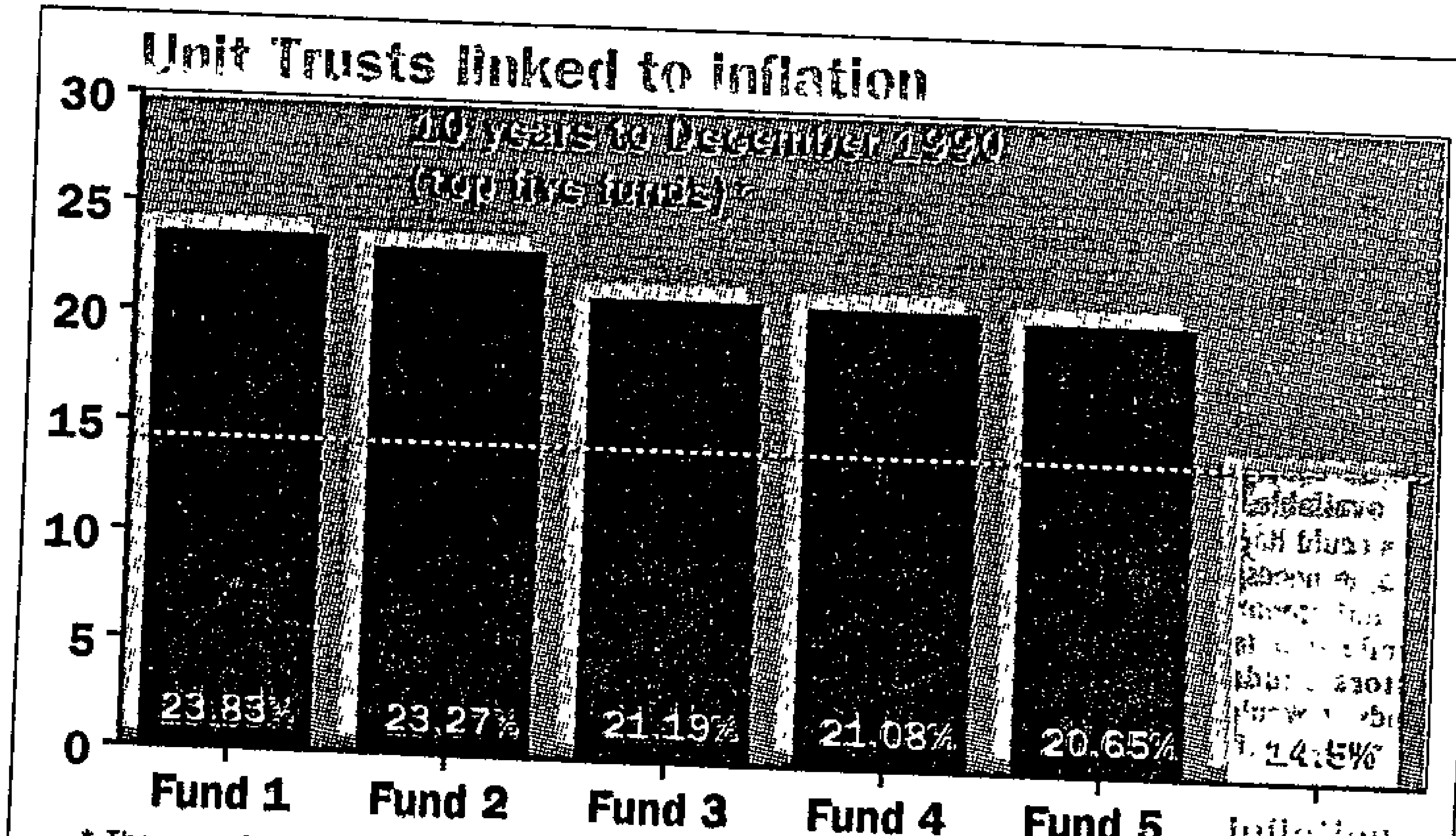
"This saving is enhanced by the fact that investors are acquiring units at a discount, since our bulk buying facility eliminates the usual 5 percent initial charge."

Multitrust is a unique product which enables investors to put money into the full range of unit trusts — and not only those in the Sage portfolio.

"The chances are that over the long term the performance of all good trusts will even out — but through Multitrust we enable our long term investors to benefit from the performance of those which perform best over the short term," says Mr Belling.

SageLink invests in the broadly based Sage Fund and the Sage Resources Fund.

"Our primary objective is to provide long term growth in both capital and after-tax income that far outperforms inflation. And a substantial overseas investment element in the portfolio gives it an added strength."



* These performance figures are based on a single amount invested at the beginning of the term plus income reinvested and are not comparable to performance figures calculated on a different basis.

Rise in fees will ensure standards are maintained

Star 18/4/91

Fees charged by South African unit trust managers are among the lowest in the world but this situation is set to change.

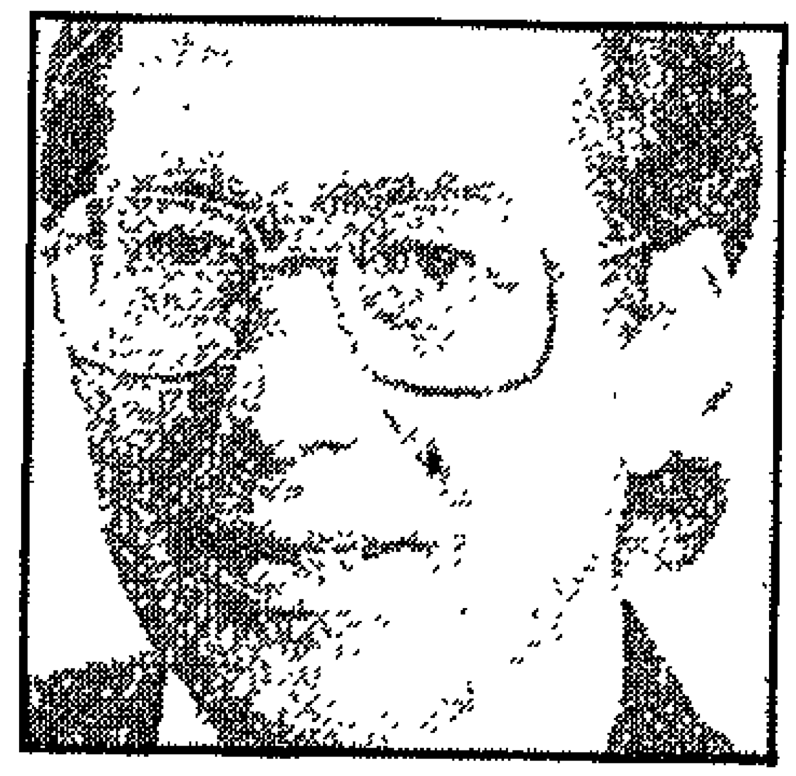
And while the increase will be too small to have any meaningful impact on the investor, it will ensure that standards of service within this highly competitive industry are maintained.

Charges currently allowed in terms of the Unit Trust Act amount to only 0,5 percent a year — well below the 1-2 percent common in the United Kingdom and the United States, and absurdly low when compared with the fees of professional managers of private portfolios.

"We are living with an historic situation — the fees were established when the Act was promulgated in the '50s, and they are long overdue for change," says Bernard Nackan, managing director of Investors Mutual Funds at Sage.

"Costs of technology, management skills and administration have risen steeply.

"And this is especially hard to bear in a small fund, where



Bernard Nackan, managing director of Investors Mutual Funds at Sage.

(58)

the basic outlay is similar to that of a larger fund.

"If the industry is to continue to employ top-flight professional fund managers, we need to see an increase in fees to around 1 percent a year."

Unit trust investors pay an initial charge of up to 5 percent, which just covers the cost of sales commission and administration.

Thereafter, the only fee levied is an annual 0,5 percent on the market value of the fund, calculated monthly.

unlocked

Boom expected as market is un

Star 18/4/91.

A growth surge is expected for the unit trust industry for the next few years as the investing power of the increasingly sophisticated black market is unlocked.

But, in the short term a great deal of work needs to be done by the industry — both in educating its market, and in packaging its products to meet the market's needs, says Tony Gibson, portfolio manager at Syfrets Managed Assets.

"Management companies will have to train staff who, in turn, can train advisers able to identify with and operate within the black market," he says.

"It is difficult to explain the concept of unit trusts to people who have not had the benefit of quality schooling, and to whom the concepts of saving and investment are totally foreign.

"At the same time we will have to win the trust of the market — to persuade people that it is not a 'white man's plot' to take their money, and to show them how they can use the capitalist system to further their own interests."

He predicts that the black market will, for some time, remain risk-averse. Once it has been reassured that investment in unit trusts — once the basic principles have been understood — is a relatively low-risk proposition, it is likely to favour straightforward general equity portfolios.

The size of the potential market is virtually impossible to estimate — but Mr Gibson points out that the stokvel market, an important element in the informal sector, is worth about R700 million.

To start with, he suggests, stokvel clubs — semi-formal group savings schemes — could invest in unit trusts and so enhance the returns paid to their members.

"This would be especially appropriate, for instance, to organisations like funeral societies, where constant cash liquidity is not a major issue but ready access to funds is important," he says.

This, says Mr Gibson, is the route that needs to be followed by unit trust firms aiming for maximum growth. "The South African unit trust industry has a good way to go, but the top end of the market is now fairly mature. Living space is badly needed — of the 17 funds on the market, only seven are making a real profit."

Unit Trusts
A Star survey

A unit to be trusted

58

Star, 18/4/91

Fedgro Unit Trust, launched on February 14 this year, initiated its portfolio on December 3.

Since then it has grown significantly and at the quarter end had total assets of R15,8 million — compared with R5,8 million at December 31.

The performance for the period has seen an increase in the value of the unit price, outperforming the JSE Actuaries All Share Index, despite the fact that as a new fund it featured high liquidity levels.

"During the quarter we have seen strong growth in the JSE industrial market, a lowering of interest rates and continued weakness in the gold bullion price and — consequently — in the gold share market," says Ian Fraser, GM investments.

"We perceive continuing value in the shares of selected major corporations and together with substantial institutional cash flows, leads us to expect a recovery in industrials."

On the international front, he points out that the Gulf War was shorter and more successful than expected — while international share markets have brushed aside fears of continuing recession.

The managers took advantage of attractive share prices in the early days of the fund, while cash and deposits enjoyed high interest rates.

"We will continue to build up a mix of high quality industrials as well as companies which we believe to have above-average growth potential, while restricting our direct exposure to gold producers ..."

Capitalising on bad times

58

Star 18/4/91.

Maintaining a fully invested position through the recent weakness in the market has left Old Mutual Investors' Fund well placed to maximise returns for its investors over the medium to long term.

The latest performance figures compiled by the University of Pretoria indicate the fund occupying top position in the industry over the five (23,22 percent), seven (23,95 percent) and 10 (24,7 percent) year periods. In addition, investors have continued to show confidence in Old Mutual Unit Trusts, with total assets for its five funds increasing by well over R200 million during the past quarter, to more than R2,6 billion.

Assistant GM investments Rowland Chute said this good performance contributed to the Investors' Fund's record distributionof 60,95c a unit.

Following the strong movement of the industrial board of the JSE, the Industrial Fund concentrated on identifying shares which continued to offer good relative value. This fund, which was launched in May last year, outperformed both the Industrial Index and its competitors with a quarterly performance of 14,45 percent.

The Mining Fund was a net buyer during the quarter, with liquidity dropping from 22 percent to 17,5 percent. It added to its holdings in Amcoal, Rusplats, Genbel, Minorco and Iscor, and sold its holdings of Samancor, Fred Dev, Lydex, Randex and Potch Gold Areas. While the All Gold Index continued to weaken, the policy followed with the Gold Fund was to remain well invested, with liquidity falling from 12 percent to about 10 percent.

Fund's size not only criteria for success

58

Star 18/4/91

The dominant role in the unit trust industry, traditionally played by the larger funds controlled by the banks and life houses, may be under threat if the performance of Syfrets Growth Fund is anything to go by.

"The fund has led the unit trust industry's investment performance over the past three of its four years in existence. This indicates that size or market share may not be as relevant to investors making a choice of unit trusts as was once thought," says investment manager Tony Gibson.

Syfrets Growth Fund has delivered a compound annual growth return to investors of 31,8 percent since 1987, placing it at the top of the performance rankings of a sector made up of 37 different unit trusts, 24 of them launched over the past four years.

They form an investment industry that now has some R8,3 billion and about 75 000 individual accounts under administration.

The leading position consistently held by the Syfrets fund indicates that smaller funds may have distinct advantages over their larger competitors.

For example, the Unit Trust Control Act restricts fund managers from investing more than 5 percent of their funds in any one company's issued share capital.

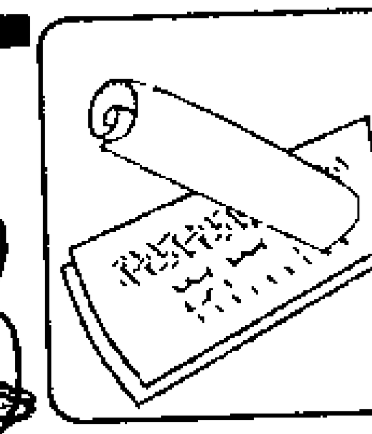
Because of this, it may not pay the managers of larger funds to seek out smaller companies where they cannot accumulate sufficient strategic holdings to make their investments meaningful.

Consequently, it would not benefit a fund manager with R1 billion under administration to invest in a company with a market capitalisation of, for instance, R100 million, in that he could acquire only R5 million worth of shares. This could be too little in terms of his required exposure, or may not contribute meaningfully to the overall performance of his fund.

Smaller funds also have a definite advantage in being able to respond rapidly to stock market conditions in raising or decreasing liquidity levels, says Mr Gibson.

"It is easier for a fund manager to reduce or increase the liquidity of a R300 million fund by 5 percent than it is for one with R1 billion.

"The management of liquidity over the volatile past few years has had an important role in fund performance."



Unit Trusts

A Star survey

Gordon amazed at Stanbic share blocking action

(58)

Star 18/4/91.

By Ann Crotty

Old Mutual's unprecedented move to block the special resolution needed to increase Stanbic's authorised share capital by 25,9 million indicates that unfettered control of the giant banking group is far from resolved.

Speaking from London, Liberty chairman Donald Gordon said last night he was astounded by the move: "It does not represent an immediate problem, but in the course of time, whenever special resolutions are involved, Stanbic's interests could be prejudiced."

Towards the end of March heavy buying of Stanbic shares — apparently initiated by the Rembrandt group — sparked speculation of a battle for control.

However, there seemed little clarity over which party or combined parties could top the 34 percent of Stanbic that is believed to be controlled by Liberty. (In addition, it is possible that Liberty could get access to the 7,6 percent held by Stanbic's pension fund and its executive share scheme).

Although Old Mutual has neither confirmed nor denied that it was the shareholder behind the 19,967 million shares that voted against the resolution at Stanbic's AGM on Tuesday, informed sources are adamant that it was the massive Cape institution.

According to Stanbic's financial annual report at end-December 1990, Old Mutual held 19,907 million Stanbic shares (equivalent to 20,3 percent).

It is believed to have picked up more at the height of the active trading when Stanbic was touching the R51 level.

Currently there are 126 million shares authorised and 98 million issued.

If the resolution had been passed, the Stanbic directors would have discretion over 35,5 percent of the authorised share capital.

It is possible that the motive behind the blocking action was to frustrate any attempts by Liberty to increase its stake in Stanbic by selling assets in exchange for Stanbic shares issued by the directors.

Significantly, although Old Mutual has been singled out as the blocking party, a shareholder (or shareholders) holding about 10 million shares abstained from voting on the special resolution — indicating a possible further source of dissension among Stanbic shareholders.

At end-December the Rembrandt group held 10,5 million Stanbic shares and its associate GFSA had 10 million.

It may be that the Old Mutual was flexing its muscles and showing that it cannot be overlooked in any long-term plans concerning Stanbic's control.

But it may difficult to sustain this sort of frustrating action in the long term.

If Stanbic's board could prove the necessity of the additional share capital (given the capital requirements of growing banks), then it could make a case to the Competition Board that Old Mutual, which has a controlling stake in Nedcor, is blocking the progress of a competitor.

US fund aims at $5bn in aid to South Africa

From RAMSAY MILNE

NEW YORK. — In what would be a major boost for economic growth and development in South Africa, the Rockefeller Foundation has set up an exploratory committee that would help to funnel up to $5 billion in foreign development capital into the country over five years.

Ms Sally Bowles, the executive director of the Committee for South African Development that is to pilot the creation of a new development bank through which foreign investment funds would be made available, said the move had been initiated by Rockefeller Foundation President Mr Peter Goldmark after meeting ANC Deputy Leader Nelson Mandela in New York in June last year.

Mr Mandela, acting quickly on the proposal, invited Mr Goldmark to meet him in London for more detailed discussions, and the committee now headed by Ms Bowles was set up to examine the plan's feasibility.

The committee, which has been funded by the Rockefeller Foundation, includes other Foundation representatives Mr Wiseman Nkuhlu, vice-chancellor of the University of the Transkei, also a director of the Development Bank of Southern Africa, and Mr Israel Skosana, manager of National Sorghum Breweries.

Ms Bowles, who recently visited South Africa to investigate the proposed bank's role, said the committee's aim was to consult as widely as possible with institutions and individuals in South Africa who might help expedite the plan to establish a development bank there and to define its role in a post-apartheid South Africa.

"So far the results have been encouraging," said Ms Bowles, "But it would be premature to speculate any further."

During her visit to South Africa she had detailed discussions with former First National Bank managing director Mr Chris Ball, Mr Jan Steyn, chairman of the Independent Development Trust, and Mr Simon Brand, executive chairman of the Development Bank of Southern Africa.

Though some scepticism has been expressed at the ability of the Rockefeller-led committee to raise $5 billion when international bankers are facing lean times, and with Eastern Europe now regarded as a prime investment area, a New York banking source said it was not beyond the means of European and Japanese banks to fund this level of investment in a region having southern Africa's massive potential for growth.

"Don't count American capital out eventually, either," he added.

Approaches made to Registrar

Shareholders try to increase Stanbic stakes

58

B/Day 18/4/91

GRETA STEYN

MAJOR shareholders of the Standard Bank Investment Corporation (Stanbic) have asked the Registrar of Banks for permission to increase their stakes in Stanbic, a spokesman for the Registrar said yesterday.

He declined to confirm market talk that permission had been requested by all three big shareholders in Stanbic — Rembrandt (11%), Liberty (33%) and Old Mutual (22%) — or say whether it had been granted or refused.

He said any shareholder with a stake of 10% and larger in a bank when the Deposit-Taking Institutions Act came into effect in February had to obtain official permission to increase its stake.

Talk is that Rembrandt's greater power in the financial services sector through the formation of Absa triggered a plan by Liberty and Stanbic to increase their combined power. Liberty apparently wants to see Rembrandt and Old Mutual lose influence in Stanbic while its own control grows.

Speculation is that the plan hinged on Stanbic pushing through an increase in its share capital at its AGM on Tuesday. Old Mutual, believed to have engineered the block on the special resolution to increase the authorised shares by about 20%, apparently thwarted its rival's plans.

An analyst suggested that Stanbic and Liberty were planning a share swap, with Stanbic increasing its stake in Liberty and vice versa. Such a move would considerably reduce the influence of "outsiders" such as Old Mutual and Rembrandt.

Stanbic's statement after the AGM this week said the possibility of issuing shares for acquisitions "cannot be excluded" and noted that only acquisitions greater in value than 30% of a company's worth needed shareholder approval.

This means a share swap between Stanbic and Liberty could have taken place without Old Mutual and Rembrandt voting on it.

It is unlikely that the Competitions Board and the Registrar of Banks will allow Old Mutual or Rembrandt to gain a signficantly larger stake in Stanbic, as Old Mutual already controls Nedcor and Rembrandt has Absa.

If they are allowed to increase their shareholdings up to a point, they will buy Stanbic shares as a defensive strategy against Liberty.

The run-up in the Stanbic share price this year — a 70% rise from the beginning of February to its peak of R51 on March 26 — was widely attributed to buying by Rembrandt and possibly Old Mutual.

Amid speculation of tension between Rembrandt and Liberty, talk is that Rembrandt was sending a signal that it would protect its interests in Stanbic.

The share price has since slipped by about 800c but Stanbic is still rated more highly than UBS. The latter will be re-listed as Absa.

A senior Stanbic source said Old Mutual's move to block the increase in share capital was a form of "negative control" from the controlling shareholder of Nedcor, one of Stanbic's competitors.

Top bankers 'set to invest'

Cape Times 18/4/91

58

Political Staff

INTERNATIONAL bankers have indicated that they are ready to renew foreign loans to South Africa, Minister of Finance Mr Barend du Plessis has said.

"There are international bankers who have given us a clear indication that they believe in the integrity of our leaders and are willing to begin putting their money where their mouths are," Mr Du Plessis said in his reply to the Budget Debate yesterday.

Foreign loans and investment were crucial for the economic growth required to meet the socio-economic needs of all South Africans, he said. The renewal of foreign loans would "make the difference" between growth and stagnation.

The government had done everything in its power to restore economic growth and it was on this basis that foreigners were ready to begin reinvesting.

However, the renewal of foreign investment depended on whether the township violence could be resolved, Mr Du Plessis added.

His remarks were given added significance by the news that President F W de Klerk, "in a major coup", was expected to meet a cross-section of Britain's top bankers, including the governor of the Bank of England, Mr Robin Leigh-Pemberton, in London next week.

According to our London correspondent, the meeting at South Africa House could determine whether banks set up new operations in the Republic in the near future.

The meeting with Mr Leigh-Pemberton apparently is to take place on Monday. It is also to include one or two "major Japanese interests".

The presence of Mr Leigh-Pemberton will be highly significant because of the Bank of England's influential role in the British economy.

Economists have described the United States Rockefeller Foundation's possible R13,5-billion investment in development banking as a clear signal that the tide has turned in favour of support for South Africa.

They predicted yesterday that this kind of capital injection would be matched by multinational loans and investments through the International Monetary Fund (IMF) and the World Bank, reports **ARI JACOBSON.**

Mr Simon Wilson of First National Bank (FNB) said it was significant that the Rockefeller Foundation's proposed involvement would double the South Africa's foreign reserves (forex) position in dollar terms

Mr Rian le Roux of Old Mutual said the obvious benefits of a political solution were seeping through to boost economic growth.

Poor capital inflows have hindered growth prospects in the past 10 years.

"The bottom line is that this potential investment is good news for South Africa's economy," Mr Le Roux said.

● **Pik cancels trip — Page 3**

Registrar speaks up on non-bank credit

(58)

ROBERT GENTLE

THE Registrar of Deposit-Taking Institutions yesterday defended his policy on disintermediation, a controversial process whereby non-banks or corporates can bypass the banking sector and directly borrow from and lend to each other or the public. B/Day 19/4/91.

The policy was a realistic compromise between the need to promote advanced borrowing and lending techniques while ensuring the stability of the banking system, said registrar Christo Wiese.

The registrar's latest position papers on securitisation and the commercial paper market, two key forms of disintermediation, propose restrictions that have caused corporates to accuse the authorities of protecting banks and restricting competition.

"Banks would prefer the level of disintermediation to be as low as possible and corporates, naturally, as high as possible," said Wiese.

The challenge was to find the appropriate mix which would not endanger the banking system while at the same time allow corporate treasurers the financing flexibility they deserved, he said.

The supervisory authorities accepted that disintermediation was both "normal and beneficial" for a substantial part of the borrowing and lending in a developed eco-

☐ To Page 2

Registrar

B/Day 19/4/91.

(58)

☐ From Page 1

nomy — inter-company lending within a group being a good example.

The registrar had thus been "very accomodative" in allowing the development of a commercial paper market right down to the three-month maturity level whereas initially, this level had been set at two years and above. Similarly, few limitations had been placed on debentures.

Explaining why the authorities wanted to see corporates wishing to securitise their assets (ie, repackage them into negotiable securities) and channel their transaction through a bank rather than perform it themselves, Wiese said:

"As commercial paper already benefits corporates at the expense of banks, direct corporate securitisation would result in an excessive degree of disintermediation.

"Given the unsatisfactory position of SA banks' capital positions and their low margins, it certainly would not be wise to erode their business further in this way."

The Reserve Bank was not insensitive to accusations that it was protecting banks, Wiese said, but had to ensure that innovative techniques helped strengthen rather than weaken the overall financial and payment system.

Indeed, the Reserve Bank did not "exclude" the further broadening of disintermediation — just as long as it was in the context of strengthening the system.

"A safe banking system is a prerequisite for a country's economic health," Wiese said.

Pichold and Prima 'heading for legal tussle'

By Magnus Heystek (58)

Star 19/4/91

The Pichold Group and Prima Bank could be heading for a multi-million rand legal battle after last week's liquidation of Cape Investment Bank.

At stake is the purchase price of about R13 million which Pichold claims in terms of the agreement reached between the two groups in December last year.

The purchase price, which has not been made public before, was calculated by means of an intricate formula using tangible net asset value of CIBG at December 14 last year, CIBG's tax losses, provisions for doubtful debts plus any amounts by which the net proceeds of the sale of the subsidiaries of CIBG exceeds their respective book values.

In terms of the agreement, which is apparently now being disputed, Prima Bank Holdings, the holding company of Prima Bank, was to have paid for Pichold's controlling stake in the Cape Investment Bank Group (CIBG) through the issue of PBH 1c preference shares, redeemable after three years from the effective date. The redemption price was to have been determined at December 31 this year.

Preference shares

The preference shares have a yield of 70 percent of the prime overdraft rate on the value to be established on that date.

Pichold claims that it gave no warranty to PBH in respect of the assets or liabilities of CIBG or any of its subsidiaries and did not hold itself responsible for any deficiencies.

Nobody at either Prima or Pichold were prepared to comment on this matter yesterday, but according to sources Prima is now disputing the terms of the agreement reached in December last year.

This follows action by the Reserve Bank last week for the liquidation of Cape Investment Bank.

INSURANCE FM 19/4/91

58

PRESIDENT'S REQUIEM

President Insurance CEO Tjaart van der Walt visited the eight branches this week to organise the orderly running-off of the short-term insurer's business, after last week's decision to write no more general insurance.

Van der Walt says the branches knew of the decision before the announcement. A few of the 130 staff will stay on to maintain the share of government-underwritten compulsory third-party business. It is doubtful if many can be absorbed into the life assurance business of parent group, Rentmeester.

That leaves the question of President's underwriting licence. The official statements suggest Rentmeester will hang on to it and perhaps, at some stage, bring back President as a niche insurer (trying to be a general insurer on a very small scale in hazardous market conditions was its undoing).

Industry observers are sceptical: rarely, if

FM 19/4/91

58

ever, has an insurer returned after losing public confidence. In this case, policyholders will not lose out and the Financial Services Board is comfortable with the procedures for running off the business.

Van der Walt indicates that, while not speaking for the shareholders, he thinks an offer for the licence would be entertained, depending on the terms. Last year (*Economy* December 7), President tried to merge its existing interests with another insurer, which seems to confirm that, with the run-off completed, the licence will be negotiable.

How to value it is another matter. The Financial Services Board (previously the Office of the Registrar) is not enthusiastic about new licences, so President's may have scarcity value. But by the same argument any new owner might face stiff capital requirements. The board feels the short-term market already provides too much capacity, one of the reasons for unrealistically low rates in recent years, so is unlikely to do anything to encourage a newcomer.

Finally, given the current experience of the short-term industry, there are few inducements to enter. However, even now a licence would be useful to an organisation with, for example, strong relationships in the construction industry, where guarantee business can be profitable. It could also have value to a financial services group wanting to extend cross-selling capabilities and lacking a short-term arm. Also, a large group wanting an on-shore captive insurer could be interested in President.

President's problems had been known for some time. It headed the (unpublished) list of five insurers which the then Registrar's office said last year were too close to acceptable solvency limits. Thou[illegible] sharehold-ers indicated they would cap[illegible]ise the company through the stress perio[illegible], a successful recovery was never likely.

The problem was size. With [illegible] than 1% market share, operating costs a[illegible] [illegible]rcentage of net premium income were nudging 40%. The industry average is about 27%.

Bryan Deans

CIB

THE BONES BEGIN TO RATTLE

FM 19/4/91 (58)

A tale of probable fraud and corruption is unfolding as the Cape Investment Bank (CIB) saga develops. An investigation of SA Rail Commuter Corp's deposits with the provisionally liquidated bank (put at R249m in court papers) is expected to reveal that they may exceed the legal limits.

The Minister of Finance sets maxima for what public-sector bodies may deposit with particular institutions. These limits are undisclosed and based on criteria such as profitability, net asset value, growth potential and managerial performance of the bank.

Also, regulations under the Deposit-Taking Institutions Act provide that no single deposit with a bank may exceed 10% of its total deposits. For CIB, this maximum would be about R30m.

According to the Legal Succession to the SA Transport Services Act of 1989, a department of Transport Services must get permission from the Minister of Finance to operate in the money and capital markets and fund itself in these markets. Apparently this was done. But the minister was never made aware of the extent of the investment with one bank. More than 80% of CIB's deposits come from this one depositor.

It must be asked why such a large sum was deposited with one, small institution. The question will remain unanswered for now, as Transport Minister Piet Welgemoed has banned further comments to the press.

The lure could have been the high deposit rates offered by CIB, at times 1,25% more than the rest of the market. But as one money market dealer says, if such rates are offered, there must be a catch. Whether any commission was paid by the bank and to whom also needs urgent investigation.

Whatever the reason, it is still not prudent to place such a large sum with a bank whose capital is just R38m.

The corporation made a term deposit with CIB in July when perceptions of the bank were still reasonable. When Prima Bank bought a 49% stake in CIB with effect from December, the corporation was advised by the Reserve Bank and Prima not to move its deposits as the bank was under new management. But on March 28, when CIB's first repayment to the corporation of R103m was due, CIB couldn't meet its obligations.

Joint auditors Coopers Theron du Toit and Deloitte Pim Goldby warned the Registrar of Deposit-Taking Institutions on March 19 that CIB was trading while its liabilities exceeded its assets — and it was therefore insolvent. The bank was consequently put into provisional liquidation in the Cape Supreme Court on April 11.

At the same time Welgemoed ordered an investigation into the corporation's placing of R249m with CIB "regarding financial requirements arising from the corporation's budget . . . and whether they have operated according to guidelines laid down by the ministers concerned."

The corporation will get back a dividend from the liquidators when CIB's affairs are wound up. It is the only depositor which will not be paid out in full — plus interest — by the Bank's special assistance scheme. Bank Governor Chris Stals announced last week that all deposits of not more than R5m will be covered by the Bank. He said the Bank "cannot accept responsibility for the injudicious investment decisions of depositors."

KPMG Aiken & Peat's Tjaart du Plessis has been appointed liquidator and is in Cape Town assessing what has to be done. He will complete a preliminary report by Monday.

The news is expected to be bad. Bad debts are estimated at around R115m, exceeding the capital base by R77m. The R77m far exceeds figures of R49m so far made public.

At least 20 borrowers are in default.

One is Rico Breweries (listed in the venture capital market), which borrowed R24m. Its holding company, Transvaal Distillers, is in provisional liquidation. DCM-listed property developer Quantum, which owes CIB R14m, is in judicial management.

The Quantum loan was made after CIB knew it had cash-flow problems. As CIB's joint auditors point out: "Fraud is committed when a person incurs debts or accepts deposits that he knows he will not be able to pay."

The complete list of creditors was "sealed" when CIB was provisionally liquidated, so is not available. This apparently is to stop other debtors of these companies claiming before the CIB liquidators can.

CIB's poor risk management is emphasised by the fact that many of its loans were unsecured. Such securities as there were, were often not in place. The extent of bad debts was discovered only after Coopers Theron du Toit and Deloitte Pim Goldby were asked to determine the net asset value of the bank so a price could be determined for Prima's purchase.

Rand Merchant Bank helped to value the lending book. It found that provisions against the book could total R115m — taking into consideration that loans were written off if no information was available.

Prima is considering legal action for compensation for time it put into managing the bank. CIB's management could be charged with fraud or could be guilty of an offence in terms of section 424 (3) of the Companies Act 1973. CIB directors Jan Pickard jnr and Steve Phelps resigned on March 8 because of the state of the lending book and because most operations had ceased or been sold.

CIB is the first bank to be liquidated in SA. One reason for the decision to liquidate, instead of putting it under curatorship as with Alpha Bank recently, is that curatorship would reflect poorly on Prima.

□ Pichold, CIB's former major shareholder, will tell shareholders on Thursday about its agreement with Prima. The contract set a minimum price for the 49% of shares sold and no warranties were made. So how much will Prima have to pay Pichold? And who will be held responsible for CIB's debts — new owner Prima or former CIB management?

Heather Formby

GOODBYE VATCOM

Having submitted its report after publication of the draft VAT Bill, Vatcom — the VAT Committee — has fulfilled its function and ceased to exist, says Trevor van Heerden, chief director, tax policy development in the office of the Commissioner for Inland Revenue.

How will queries about technicalities of the VAT system be processed? Normally they will be dealt with by Receivers' offices or — if necessary — referred to the commissioner's office.

Major policy matters will be put before the Tax Advisory Committee in the same way as any other tax matter — including referrals by the Minister of Finance.

INSURANCE

FM 19/4/91

PRESIDENT'S REQUIEM

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Industry observers are sceptical: rarely, if

continue →

SBIC FM 19/4/91 (58)

SHARE PLAN REBUFFED

A bid for control of Standard Bank Investment Corp (SBIC) — or at least a fear of this on the part of major shareholders — now looks a real possibility.

It is difficult to avoid that conclusion after Tuesday's shareholders' meeting, when a proposal to increase the authorised capital by 25,9m shares — or 20,5% — was not passed. This follows unusually high trade in the tightly held stock recently. Just over 2m shares or about 2,1% of issued ords changed hands last month (*Companies* April 12).

Proposing the motion, the directors said the additional reserve capital was intended to provide for growth (possibly a major acquisition), issuing scrip in lieu of dividends, and issuing shares to management under the option scheme.

It failed to gain the required minimum 75% of shares represented. There are 98m issued ordinaries, and votes representing only 47m were cast in favour. About 10m abstained and about 19m voted against.

MD Conrad Strauss says it's unclear who objected, as one shareholder exercised his right to request a secret poll, instead of the usual show of hands. There was no debate and nobody had put forward any objections.

"It is a mystery to me," says Strauss. "These shares would have been under the directors' discretion. Is somebody querying the board's independence?" At present 22% of the authorised capital is not issued. Had the resolution been passed, unissued capital would have amounted to 33,5% of authorised ordinary capital, of which 2,4% would have remained earmarked for existing options.

The remaining 31,1% unissued and non-earmarked capital would thereafter have been steadily eroded by scrip dividends and further options.

Strauss contends this would not be out of line with local or international standards — Barclays Plc, for example, has about 25% of authorised shares under board control.

Market talk is that Old Mutual was the main dissenter. This is plausible, given its 20,3% stake (about 19m shares) at SBIC's December 31 year-end. It is not known whether Mutual was buying last month — Rembrandt almost certainly was — but Mutual could have lifted its stake slightly. Asked to comment, Mutual chairman Mike Levett simply says the policy is never to comment on any particular company or situation.

There have been two main lines of speculation about recent buying. Either somebody was accumulating shares as part of a plan to gain control; or an existing shareholder was seeking to build up a blocking stake to prevent such a bid. Small though the recent sales were, it may not be impossible to acquire enough stock to tie up the balance of power — depending on what alliances form.

Apart from Mutual, major shareholders at year-end were: Liberty Life 32,2%, Rembrandt 10,7%, GFSA 10,3%, Standard Bank Pension Fund 5%, SBIC Executive Investment Trust 2,6% and Mine Officials Pension Fund 1,1%.

As noted previously, when Donald Gordon vacates the Liberty chair, SBIC will appoint the next executive chairman of Liberty.

If Mutual is concerned about other major shareholders gaining control of SBIC and, perhaps, Liberty, the blocking stake theory may have gained substance at the meeting.

Registration of shares bought last month should provide more clarity. But a large bloc of shareholders has effectively expressed a lack of confidence in the board of the leading — and most successful — banking group, leaving little doubt that a far-reaching game plan has been put into action.

Andrew McNulty

Espionage blighted battle for Allied

W/ARGUS 20/4/91

58

By TOM HOOD
Business Editor

ESPIONAGE, intrigue and tension in the take-over battle for Allied Group was disclosed today by Mr Piet Badenhorst, head of the United Group which with Volkskas, and Sage formed Associated Banks of South Africa (ASAB) the country's largest group.

He described the take over of Allied as "one chance in a lifetime to consolidate 100 years of growth by one acquisition."

Speaking at the Convention of Multiple Listing Services at Langebaan on the Cape West Coast, he said one reason for the take over was he did not want it to go to a major competitor.

The negotiations took months and were the most protracted he had ever experienced.

First National Bank and Standard, he said, were waiting to pounce if negotiations broke down.

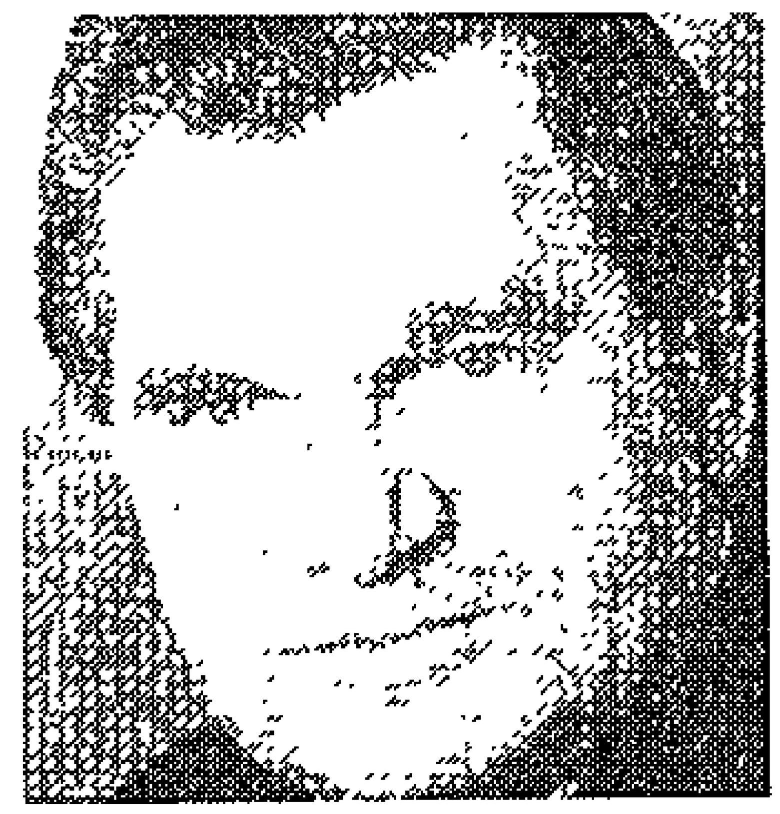
"At one stage we had prepared a notice for the Press to say we could not reach agreement but withdrew it 20 minutes before we went to Press."

First National Bank, which for many years had been the country's largest, had fallen from grace to number three and was determined to get hold of Allied and restore its position to number one.

Behind the scenes, every document and agreement in the negotiating room was ending up in the hands of his competitors.

A major board meeting was fixed for January 27 but FNB knew all about it, he said.

"Two FNB people went up in the lift with us. They not only knew the date of the meeting but also the contents of a memo being discussed."



Piet Badenhorst

Mr Badenhorst said the new ABSA did not need more than two computer centres and others would be closed in the months ahead.

"You can imagine what that will do to our cost structure two years down the line. Unfortunately some people will no longer have jobs."

Bank customers to pay for new taxes

58

320

S Times (Bus 1) 21/4/91

By DIRK TIEMANN

BANKS WILL have to foot large bills when VAT and interest turnover tax come into effect, but the customers will eventually pay.

Banks are concerned about the effect of VAT on their costs. They will be charged VAT on all inputs, but have only a few outputs.

First National Bank senior general manager Viv Bartlett says most of its services are not liable to VAT and the amount collected from them will be negligible.

"Banks are basically end users in the VAT chain. All non-interest costs, excluding staff salaries, will have VAT added."

Mr Bartlett says the merchant banking arm will collect the VAT added to the fee charged for putting together a deal. But the amount will be minimal compared with VAT paid on inputs, such as stationery, cars, rents and telephone charges. Credit, money lending and anything else to do with interest is exempt from VAT.

Mr Bartlett says the interest turnover tax was introduced instead of VAT and probably not thought through. "The current idea is that we should act as a conduit in passing the tax collected to the State.

"I think the Government has grossly underestimated the knock-on effect. Anglo American deposits money with us and earns interest on which it is taxed."

Option

Managing director Barry Swart estimates the tax will knock as much as 15% off pre-tax earnings if not passed on.

"Bearing in mind that our capital requirements must comply with the Deposit-Taking Institutions Act, we have little option but to pass the tax on. Banks are under pressure to increase their return on assets, but an unrecoverable tax will make this difficult."

Standard Bank group managing director Mike Vosloo says details of the tax and how it works are still being debated

"It was a loose idea mooted in the Budget and we have no functional idea of how it will be levied and recovered."

Ernst & Young VAT specialist Sally de Boor says the extra 0,75% was slapped on almost as an afterthought.

"SA banks will be subject to the same VAT treatment as international ones.

"GST does not cover rents and telephones, but the net will be widened If banks buy land from a business, they will be subject to VAT and again when they put up a building. There are no input credits and the cost is passed on"

The turnover tax is an additional cost. It is effectively taxed in a bank's hands at 48%. The principle is: if interest earned is R100 and, say, a R1 deductible tax is levied, then the bank pays 48% (current tax rate) on R99. However the new turnover tax is not deductible as a business expense, which means the tax is added back and the bank is taxed on the full R100.

The tax will thus be listed as a business expense, but will not be accepted as such by the Receiver.

Effectively, the cost to the bank is greater than the 0,75% tax levied because it is not deductible.

Deposits

Davis Borkum Hare analyst Graham Baillie calculated that the tax, had it been in place in the 1990 financial year, would have knocked R52,2-million off Standard's R7-billion interest earned, R40-million off First National's R5,2-billion and R38-million off Nedcor's R5-billion.

Mr Baillie expects banks to widen their margins by either increasing lending rates or paying less for deposits.

Finance Director-General Gerhard Croeser says the turnover tax will hit specialist banks hard because they take only a small profit trading between institutions.

He says the tax is proxy for the fact that banks do not pay VAT. He is prepared to look at a better proxy.

Old Mutual's after us, says Liberty supremo

(58)

S Times 21/4/91

Bus

By DAVID CARTE and JULIE WALKER

LIBERTY chairman Donald Gordon says arch-rival Old Mutual blocked a special resolution of Standard Bank Investment Corporation (Stanbic) this week "probably to have a go at Liberty".

Mr Gordon said from London: "I believe their real interest is the jewel in Standard's crown — its 50% stake in Liberty Life Controlling. This is worth R1-billion — more than Stanbic itself in 1985.

"Everybody knows that once I cease to be chairman of Liberty, Standard has the right to appoint my successor. If Old Mutual can control Standard, it will also get Liberty.

Enough

"I can't interpret Mutual's tactics any other way. They can't have wanted to upset the Stanbic board. Why were they aggressive buyers of Stanbic at over R50 two weeks ago? Obviously I'm highly irate and I will go to the Competition Board."

Old Mutual chairman Mike Levett says its policy is not to comment on its investments.

But Mutual's reason for blocking Standard's special resolution is reported to be that it did not want Stanbic to have a blank cheque for issuing shares. Mutual contends Stanbic can issue new shares worth R1-billion at present — and that is enough.

Old Mutual's move has prompted speculation that it has a major game plan in banking. A disinterested banker said it might have been keeping the way clear for an eventual merger between Nedcor and Stanbic.

Or it could have been trying to prevent Standard from buying more of Liberty Controlling for shares, thus putting control of Standard beyond challenge.

Mr Gordon says it is "deplorable" that Old Mutual, which controls Nedbank, could prevent Standard from increasing shares authorised from 126-million to 152-million.

Old Mutual is the only shareholder apart from Liberty with enough shares to block the resolution. Another shareholder with more than 10-million shares abstained from voting. This was thought to be Rembrandt.

Old Mutual's view is apparently that Stanbic has plenty of firepower with 101-million shares in issue and and authority to issue 126-million. If Old Mutual had permitted the share capital to increase, the Stanbic board could have raised the number of shares in issue by more than 50% to 152-million.

With the share price well above R40, that would have allowed an acquisition of more than R2-billion. Such a move could have seriously diluted Old Mutual's holding.

Competition Board chairman Pierre Brooks says he will not hesitate to investigate if competition appears to be threatened.

Deputy Registrar of Banks Christo Wiese says his office is more concerned with the interests of depositors than those of shareholders. He says present shareholdings in Standard were established when the UK's Standard & Chartered sold out.

Stanbic chief executive Conrad Strauss says he was surprised by Mutual's move.

"The proposal to increase the number of shares was routine. In 1985 the unissued share capital was 25% of that authorised. Since then, we have introduced share option schemes and scrip dividends. Counting those earmarked for issue in the near future, the proportion has fallen to 17%.

"We sought to raise it closer to 30%. It would bring us in line with leading British and Australian banks."

Vacancies

Dr Strauss is one of only two executive directors of the group, the other being London-based Eddie Theron.

Three vacancies have arisen on the Stanbic board after the retirement of Mike Rosholt, Adriaan Louw and Alistair Macmillan. All three are also directors of Old Mutual.

Dr Strauss says there is no laid-down apportionment of directorships to shareholders. The three were directors of Stanbic before "boarding" Old Mutual.

Dr Strauss says Old Mutual's move could imply that the board is not pursuing the best interests of all shareholders. He is also upset by the principle of negative control — the minority thwarting the majority.

Dr Strauss says he has a fiduciary responsibility to act in the best interests of *all* shareholders. Stability of shareholdings is important, and it is undesireable that changes in shareholdings should cause uncertainty.

Liberty has 32% of Stanbic and Old Mutual 22%. Rembrandt, with 10,5% of the equity, has the vital stake the two rivals need for control. Until now Rembrandt has allied itself with Liberty.

Strained

But relations between Liberty and Rembrandt were strained when Rembrandt set up Amalgamated Banks of SA (Absa) to challenge Standard for the No 1 spot in SA banking.

If Rembrandt allied itself with Old Mutual, the two could challenge Liberty over Standard — but the Competition Board might have reservations.

One disinterested banker says that once sanctions and the debt standstill go, SA banks will be too small for true international involvement. The links with Barclays PLC and Standard & Chartered have been cut. It would thus not be surprising if even the biggest banks came closer together.

ENVIRONMENT

the potential look realisable

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Police probe the collapse of Cape bank

S/Times 21/4/91

By DAVID CARTE

POLICE are investigating the collapse of Cape Investment Bank — the first bank put into liquidation in South Africa.

A police spokesman told the Sunday Times that the Attorney-General of the Cape had referred the liquidation to the commercial branch. He refused to divulge the names of persons or institutions who may be investigated.

Transport Minister Piet Welgemoed has ordered an inquiry into why SA Rail Commuter Corporation deposited R239-million in a bank with capital of only R40-million.

After the collapse of several companies to which it then lent the funds, CIB could not repay SARCC when the deposits matured.

SARCC will have to stand in line with other creditors who want their money back. Depositors with less than R5-million in the bank will rank first.

Hundreds of shareholders and creditors stand to lose money in the acrimonious collapse of CIB and two of its listed clients, Transvaal Distillers and Rico Breweries.

Litigation is expected between Picardi Investments, one-time controller of CIB; Prima Bank, which bought control just before the collapse; the former management of the bank and clients in liquidation. Some parties are talking of suits against the Registrar of Banks and/or the Reserve Bank.

The R239-million exposure of SARCC is the second huge financial setback in six years in a department overseen by SARCC boss Dr EL "Bart" Grove.

BART GROVE

In 1985, when Dr Grove was head of SA Transport Services, Sats lost more than R3-billion in foreign exchange transactions.

Former managing director of CIB Andy Swartz said he can explain several controversial aspects of the bank, from the SARCC deposit to its lendings.

"SARCC had quite a number of deposits, each with a different maturity date. It was a prudent book, spread over five months. Deposits which matured before I left on December 14 were all repaid on time," he said.

In an independent valuation, Rand Merchant Bank has marked down the value of CIB's lending book by R115-million.

Trouble

Said Mr Swartz: "I can only imagine they have valued the book on the assumption that the loans have to be recovered immediately, which is not the case."

In the past, in keeping with international practise, the Reserve Bank has aided banks in trouble.

Christo Wiese, deputy registrar of banks, said the governor ruled as he did in this case because he did not think the banking system was threatened.

Picardi Investments sold its 40 percent holding in CIB to Prima Bank in December.

Picardi reportedly claimed this week that CIB shareholders are owed at least R12-million by Prima. Prima has not responded to the claim.

UAL launches new products for investors

58

Star 22/4/91

By Jabulani Sikhakhane

UAL has launched two flexible unit trust—linked investment products, the Equity-Linked Provident Fund and the Capital Access Plan.

The Equity-Linked Provident Fund enables investors to build up a capital sum at retirement by investing in any one or all four of the UAL's unit trusts.

In terms of the prudency requirements of pensions and provident funds, 35 percent of the contributions will be invested in the UAL Gilt Unit Trust.

However, the investor may choose whether to investment more in the Gilt Fund or any amount up to 65 percent in any other equity unit trust.

UAL Management Company director Peter Anschutz says this effectively gives the employer, to whom the contributions represent a tax-deductible investment on behalf of the employee, the opportunity of building up a capital sum for his employees at retire ment at a discount of 48 percent provided by the Receiver of Rev enue.

The UAL's other new investment product is the Capital Access Plan, which provides an opportunity for the investment of capital sums such as the commuted one-third of retirement annuities and pension funds which previously had been invested in growth funds.

Investors may now use the Capital Access Plan to invest capital sums in a plan with potential for capital growth, enabling them to make tax-free capital withdrawals to supplement their income.

HAROLD FRIDJHON in the Money Markets

Stals struggles on with his costly monetary policy

BDay 22/4/91 (58)

LIKE the Dutch boy who put his finger in the dyke to stop the sea flooding in, Reserve Bank Governor Chris Stals is battling to prevent liquidity from overwhelming his monetary policy. But his save-the-Bank-rate action does not come cheaply.

At present count he has plugged the breaches in the Bank rate "dyke" with about R2bn of borrowing. Of this R1,2bn is in very short-dated Treasury bills (TBs) and bankers estimate the balance of R800m is in forward forex swaps.

Investors in the short-term TBs rewarded with a return of just over 17% discount, fractionally more when calculated as a positive return. But let us not quibble over trifles. Bankers estimate their profit from forex swaps is also around 17%. In forex swaps, banks sell rands for dollars for forward delivery. The Reserve Bank pays interest on the temporarily neutralised rands.

Some R2bn invested at 17% per annum, earns R930 000 a day. Interest on the funds invested in TBs, R1,2bn, is on the Treasury's account; the balance of R800m is the Reserve Bank's affair. Or rather we hope that it is because theoretically, the taxpayer is coughing up about R559 000 a day through the Treasury to help keep interest rates at an uncomfortably high level.

We won't worry about the R371 000 which the Reserve Bank has to meet. The Bank is a very profitable private enterprise whose annual accounts conceal much more than they reveal. But the appro mate R559 000 which comes out of Treasury's coffers and which in turn con out of your and my pockets, hurts.

No doubt, good teacher that he is, St will tell us the caning he is administerin for our own good and that it is hurting h as much as it hurts us. And that's true he is also a taxpayer.

But as painful as it is, the Stals polic must be maintained. South Africans hav to be disciplined ("spare the rod and spo the child"). With the changes which ahead, the boom-or-bust syndrome must squeezed of the SA psyche now lest t future offers only the bust option.

By the end of next week much of th excess liquidity should be sponged up. TB to the value of R400m will be redeem next Wednesday, R300m on Thursday a R500m on Friday. But on Monday GS payments amounting to R1,7bn will leaving the banks which will also sta buying banknotes from the Reserve Ban

And the April crisis will be drawing to close. Whether or not the Reserve Ban can maintain the market shortage, bank debt to the Bank — at R2,5bn — remains t be seen. On the one hand a continuin favourable balance of trade will induc domestic liquidity supplemented by a higher level of government spending; on the other hand the Treasury's borrowing programme has yet to be started. And tax payments always fall due.

Money market confusion

58

ANDREW GILL

THERE was confusion in banking circles yesterday as the Registrar of Deposit-Taking Institutions moved to force banks to bring their funding activities on-balance sheet. B/Day 23/4/91.

In a circular to commercial banks the Registrar declared certain funding practices undesirable and warned that these were a contravention of the Deposit-Taking Institutions Act.

Banks will now be required to endorse money market paper if it is sold, and hold 20% in liquid assets as prudential requirements against it.

The move's likely implication is that funding costs would rise, as would short-term rates, Deputy-Registrar of Deposit-Taking Institutions Christo Wiese said.

Non-liquid rates are likely to correct upwards to "close to prime rate", but liquid rates will stay low (if not sold to non-banks) because of the need to hold liquid assets against the liabilities, he said.

Treasurers and market participants were thrown into confusion by the circular released by Wiese on Friday.

Money market rates were quoted up to 45 points higher at certain banks as interpretations of the circular varied almost as wildly as rates. The 90-day liquid BA rate varied from a low of 17,05% to 17,50%.

In terms of the move to stamp out "undesirable practices" the intention is to ensure that where banks are not the end-holders of acknowledgments of debt — and constitute direct funding between non-banks with a bank guarantee or similar arrangement — to require that banks are

□ To Page 2

Money market

B/Day 23/4/91

58

□ From Page 1

subject to prudential requirements which apply to liabilities to the public, said Wiese.

Wiese said the bottom line was that where banks were involved in the funding between two non-banks, then the substance of the transaction must be reflected on bank's balance sheets.

"They can on-sell but if they do then it has to be put on balance sheet as a liability to the public, endorsed and reserved against."

By making the banks liable for the bills they become principals and cannot act as agents.

At end-December the amount of BAs in the hands of non-deposit-taking institutions was R7,7bn out of a total R14bn. The 20% liquid asset requirement on this is R1,54bn. Reserve requirements are 4% cash and 16% liquid assets.

The circular, which detailed the "undesirable practices", said it had come to the notice of the Bank supervision department that some deposit-taking institutions were "participating in funding activities, or alternatively, assisting their clients in developing funding mechanisms, which constitute a contravention of the Deposit-Taking Institutions Act".

The circular defined six practices which were declared undesirable and which "shall be discontinued with immediate effect".

R100m exposure in CIB under fire

B Day 23/4/91

LESLEY LAMBERT

CAPE TOWN — The management and regulatory control of banks and public corporations came under scrutiny in Parliament yesterday as DP MPs attacked the Rail Commuter Corp's R100m exposure to the liquidated Cape Investment Bank.

In two separate debates, DP MPs Ken Andrew and Douglas Gibson questioned the legality of the corporation's R249m investment with Cape Investment Bank, about R100m of which was expected to be lost as a result of the bank's liquidation.

In the Finance Vote, Andrew, the DP's finance spokesman, questioned the permissibility of investing R249m in a bank in which the Deposit-taking Institution's Act limited investment to a maximum legal limit of about R30m.

He also queried the Reserve Bank's apparent delay in detecting the seriousness of CIB's financial position. (BOO) (58)

In the Transport Vote, Gibson said he hoped the liquidator appointed by the Rail Commuter Corp, the largest single creditor, would inquire whether provisions of the Banks Act relating to minimum reserve balances and pledging or encumbrance of liquid assets, had been maintained by the CIB.

He also hoped that, in terms of provisions of the Companies Act, the directors of the CIB would be questioned and held personally liable if it was found that they were responsible for losses suffered by investors and, ultimately, by the SA taxpayers.

In the US, some directors of failed institutions had been sent to jail, Gibson said.

BDay 23/4/91

Use your cash, business told

(NW) (58)

CAPE TOWN — South African conglomerates and insurance companies were sitting on a pool of cash and their wait-and-see attitude was counter-productive to economic growth, Hennie Bekker (NP Jeppe) said yesterday.

Speaking during the debate on the Finance Vote, Bekker said it was time for capital investment to get the economy going.

He said a lesson could be learnt from post-war Germany and Japan.

"Their economics were virtually destroyed, but with their determination and with an export-oriented policy, they have built up their countries into the present economic giants."

SA should become part of existing trade blocks, he said. — Sapa.

Registrar to clear up confusion

ANDREW GILL
and ROBERT GENTLE

UNCERTAINTY continued causing chaos among banks yesterday as treasurers pondered the implications of the Registrar of Deposit-Taking Institution's decision to force all bank's funding activities on balance sheet. BIDay 24/4/91

If funding activities are to be reserved against when sold-on by banks it may "kill the market", some analysts say.

The registrar is expected to release a "clarifying circular" today after Friday's release defining undesirable practices, which was described by market participants as confusing.

They said it was bad news as other things such as tax on interest earned threatened market activity.

Standard Bank treasurer John Lloyd said it was the worst time for something like this, "at a time when we need to keep markets alive".

58

Spot rates continued at ~~their~~ widely divergent levels with the 90-day liquid BA rate quoted at between 17,05% and 17,50%.

But the uncertainty proved a boon for the SA Futures Exchange (Safex), where the resulting volatility in interest rates sent trade in BA futures soaring to unprecedented levels on Monday.

There were 34 deals involving 190 contracts worth R182m. This compares with a mere nine deals involving 45 contracts worth R43m three days earlier.

A Standard Merchant Bank spokesman said the trade was also a reflection of different market interpretations of the significance of the circular.

FNB rating a first for a commercial bank

Bdom 24/4/91

ROBERT GENTLE

(58)

THE first rating of a private sector SA bank was made yesterday when First National Bank (FNB) was awarded a high rating by independent agency, Republic Ratings.

FNB's interim results, due to be released today, are expected to put this rating into perspective.

The bank's R206m non-convertible debentures got an AA rating (one notch below the prized AAA), while its unsecured short-term paper up to a level of R16bn got an A1+ (the highest in its category).

Republic senior analyst Leon Claassen said the rating applied only to the FNB commercial bank, and did not include other operating subsidiaries such as Firstcorp or Wesbank.

He called it a watershed for local bank ratings and said it would be particularly welcomed by overseas banks and investors who were worried about the lack of independent information on SA banks — further compounded by their low disclosure requirements.

He said the AA rating, while not the highest in its category, was at the top end of banking industry limits. He said that even overseas, there were only a handful of AAA rated banks, and most were AA or less.

FNB MD Barry Swart said: "The Cape Investment Bank saga has shown that banks can fail. If ratings are good for international markets, they must be good for us too. They introduce an overdue and independent discipline into local banking."

FNB senior GM Viv Bartlett, in a veiled reference to the large investors who stand to lose money because of the CIB failure, said ratings helped depositors assess the risk of their exposure to local banks. "Our own rating can only help in this regard."

He said it would be conveyed to all FNB's foreign correspondent banks as a complement to FNB's policy of full disclosure. "We also see this as a first step towards our re-entry into financial markets."

Standard Bank MD Mike Vosloo welcomed the emergence of ratings in SA, but said it had to have wide acceptance among the investing public and a track record that reflected capability. "It is still early days for the SA rating industry."

Deposit Taking Institutions Deputy Registrar Christo Wiese welcomed the rating, saying it would provide the market with an additional tool with which to assess investment risk.

New disclosure rules mooted for life assurers

B Day 24/4/91. (58)

GRETA STEYN

GOVERNMENT is to overhaul legislation regulating life assurers to compel fuller disclosure and to bring their prudential requirements in line with other institutions, Finance Department special adviser Japie Jacobs said yesterday.

He also disclosed that government would encourage them to invest in commercial buildings in townships, although he did not see prescribed investment requirements as a means to achieve this aim.

Jacobs told a Liberty Life brokers' meeting that prudential requirements should be the same for risks of a similar nature, regardless of the type of institution.

"Long-term insurers can in future consequently expect a complete revision of the existing system of prudential control requirements, as also in their financial reporting which should not only disclose more information, but also reflect more meaningfully the liabilities, reserves, solvency margins, etc," he said.

He foresaw that financial holding companies would have both banks and long-term insurance companies as affiliates. Supervisory control for the two types of institutions would continue to differ, although there was room for adjustment to prudential requirements.

He also hinted at close government scrutiny of any parties wishing to increase their influence in a long-term insurance company, noting the EEC rule that shareholders who want to acquire 10% or more of the capital had to inform the authorities of their intention.

Consideration

Jacobs said discussions had been held with the contractual savings institutions on channeling investments in "socio-economic" ventures.

"There is one area that merits serious consideration and that is investment in structures such as office blocks and shop facilities in the black townships which will help to lift the face of these areas. It may entail some risk, but similar developments are financed in the white urban areas and a case could therefore be made out to implement the same policy in the black areas."

He said closer co-operation between white and black local authorities might also be instrumental in providing support for such a development.

But in general he believed it would be preferable to establish specialised financial institutions to channel finance into certain areas rather than interfere with the flows in the financial markets in general

In an attack on the ANC's continued support for sanctions, he said those who still advocated sanctions were "contributing to poverty, disinvestment and social unrest."

It was unrealistic even to think in terms of negotiating the end of SA's foreign debt standstill as long as SA did not have access to IMF facilities.

In a reference to the Old Mutual-Nedcor scenario, he spoke out against the re-introduction of prescribed asset requirements.

He said there was room for a house-building programme as part of SA's urbanisation policy, but the proposals surrounding the prescribed investment concept were unlikely to provide either the mass housing units or the economic growth their "protagonists" envisaged.

Estate agents accused of applying disguised apartheid

Star 24/4/91 (58)

By Frank Jeans

SUN CITY — The Estate Agents Board was accused yesterday of practising disguised apartheid by barring blacks from the property industry.

At the convention of real estate network Multi Listing Services (MLS), Leon Louw, executive director of the Free Market Foundation, said: "The board should be abolished.

"It has restricted entry into the profession and it will prevent blacks from benefiting from opportunities in black property markets because many with a poor education would have difficulty in passing the board's examination."

Emphasising that the entry of blacks into the property industry would generate a lot of new business, Mr Louw said the Estate Agents Board had created a barrier which prevented blacks from becoming agents.

"A government of the future might consider sweeping away the board, along with the Estate Agents Act," he said.

He said deeds registration should be replaced by a simple computer system.

"Land surveying is another myth. It can cost R3 000 to survey a piece of land that is worth R1 000, and it provides no greater certainty of boundaries."

Hitting back, Eskel Jawitz, chairman of the Estate Agents Board, said he was surprised that a man of Mr Louw's intellect could make "such wild, inaccurate and misleading statements".

"Any insinuation that the board has followed a policy of restricting blacks, or anyone else, must be rejected with contempt," he said.

The board must expect changes and was well aware that the black consumer would play a more active role in the housing market, he said.

It is understood the board is reviewing its requirements to make the examination more practical.

FNB

B/Day 25/4/91

described as "unique" among SA banks.

Net interest income — the difference between interest income and interest expenditure — increased 9,9% to R726m (R660m). Charges for bad debts of R132m (R147m) reduced this to R594m.

Of particular importance, Swart said, was the holding down of growth in operating expenditure to 14,3%, considerably lower than key competitors.

Total assets grew by 12,8% to R33,5bn, primarily due to growth in advances. Swart said these included traditional overdrafts and instalment finance from Wesbank — together standing at about R22bn — as well as home loans.

He also referred to FNB's total disclosure policy and its comfortable capital

58

□ From Page 1

position in the context of the new Deposit-Taking Institutions Act. FNB subsidiaries hold total capital of 7% against the 4,5% currently required by the Act.

Swart said FNB would not go out on a lending binge, which was easy. "We will only do business if it is profitable."

Asked about possible acquisition plans vis-à-vis Saambou and Natal Building Society (NBS) — the two likely candidates — Swart said FNB was "not interested" in Saambou.

However, if NBS — in which FNB already has a 10% stake — feels it needs a big brother, then "we are ready and waiting".

A JSE banking analyst described the results as "better than expected".

FNB's tight policy pays off

B/Day 25/4/91

58

ROBERT GENTLE

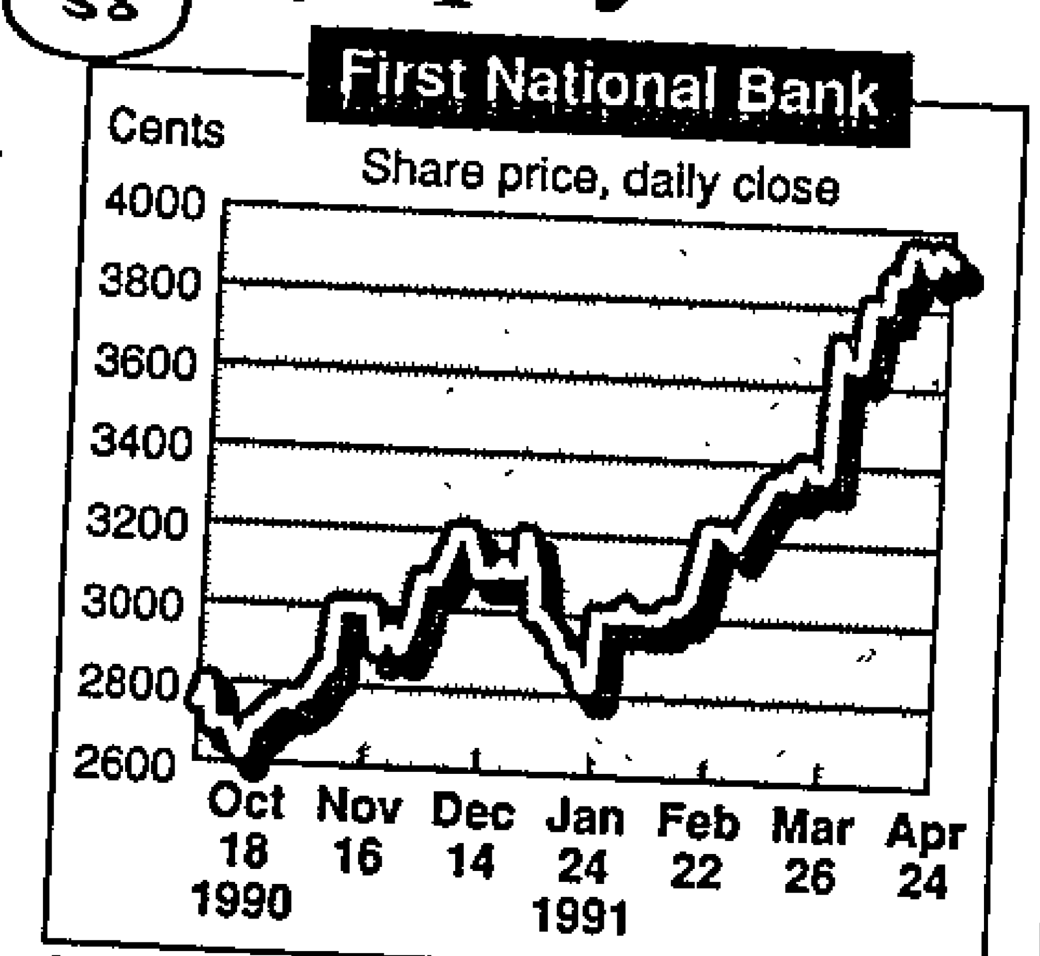
FIRST National Bank (FNB) yesterday announced a 19,3% increase in earnings a share for the half-year ending March 1991 on the back of a continued reduction in bad debts, tight cost control and a comfortable capital position.

Net income after taxation increased 19,5% to R156m (R131m), leaving the interim dividend 12,5% higher at 45c (40c).

FNB MD Barry Swart, speaking in an interview, called the results satisfactory under current economic conditions.

As an achievement he singled out the continued reduction in charges against bad and doubtful debts, the result of an enhanced credit risk management process he

□ To Page 2



Graphic: FIONA KRISCH Source: JSE

New battle for Saambou raging

58

GRETA STEYN

A NEW battle for control of Saambou is taking place in spite of the building society's defensive moves earlier this year.

Focus of the battle is the shareholders' meeting to approve Saambou's deal with Fedsure. Market talk is that a predator is wooing small shareholders to have the deal thrown out at the meeting.

Saambou chairman Hendrik Sloet said last night the directors had not yet decided on a date for the general meeting.

An indication that the battle for Saambou might not be over is the behaviour of the building society group's share price in recent weeks. The share has risen by more than 20% from lows reached after the Fedsure deal was struck. On April 17 it reached a new peak of 182c and is still trading at 180c. B/Day 25/4/91.

It seems the mystery buyer behind Trafalgar Portfolio Managers, whose earlier offer failed, has not given up. Saambou sources have indicated they believe the buyer to be Investec, but Investec has denied involvement.

Fedsure group financial executive Dave Avnit said yesterday: "We do not see ourselves as taking over Saambou. But we have every wish to convert our debentures into shares as soon as possible."

A shareholder, who did not wish to be identified, said yesterday the 140c a share price of the Fedsure transaction was too low, given the market price of 180c. In terms of the deal struck at the end of January, Fedlife would acquire convertible debentures in Saambou which, if converted, would give the institution a 30% stake in the group.

He accused Saambou directors of dragging their heels in setting a date for the meeting.

Trafalgar reopens battle for Saambou

Star 25/4/91.

58

By Ann Crotty

It looks as though the control position at Saambou may be thrown wide open with the news that Trafalgar is coming back with a second offer pitched at 180c a share.

In January Trafalgar surprised the market with a conditional offer to purchase 30 percent of Saambou at 140c a share. Ahead of that offer the share had been trading at 130c.

The offer resulted in Trafalgar building up a stake of only three percent.

More significantly, the offer precipitated a counter move by Fedsure aimed at establishing a 30 percent stake in Saambou.

This would give it effective control and protect it from another unfriendly bid. There were also believed to be some longer-term operational benefits.

The Trafalgar offer may unhinge Fedsure's attempt to play the white knight.

The Fedsure/Saambou deal, struck on January 31, involved the sale of a Fedsure asset (Planet Finance) to Saambou in exchange for the issue to Fedsure of 39 million convertible debentures (CDs) at 140c a CD.

The CDs were convertible over a three-year period to March '94 at the election of Fedsure. On full conversion of the CDs, Fedsure would have a 30 percent stake in Saambou.

The fragmented nature of the share profile meant this stake would give it effective control — at 140c a share.

A general shareholders' meeting was apparently planned for mid-May to approve the issue of the CDs. Approval needs at least 50 percent of those present (or submitted proxies) voting in favour.

Given the shareholder profile and the fact that the Saambou management and board supported the transaction, initially it seemed that support for the deal was guaranteed.

More recently strong buying of Saambou encouraged the view that a third and unknown party might be attempting to interfere with the plan.

Now, amid this speculation, Trafalgar has announced it will be making an offer to acquire 30 percent of Saambou at 180c a share. Apparently one of the conditions of this offer is that the Fedsure deal is not implemented.

Trafalgar's Pieter Hougaard says the offer is based on the existing number of shares in issue, but adds that Trafalgar reserves the right to waive this condition.

The offer will be open until mid-June, which means it will overhang the shareholders' meeting due in mid-May to vote on the issue of the CDs.

Depending on how many shares it picks up between now and the meeting, Trafalgar could determine its outcome and therefore the future of the Fedsure/Saambou deal.

One important factor wor ing in Fedsure's favour is th 45 million of the 85 million shai in issue are held by a large nu ber of small investors who w tend to be apathetic or to vote line with the advice of the Saar bou board and management.

But the recent strong buying Saambou suggests there could scope for Trafalgar to tie in wi another party in order to inte fere with the Fedsure deal.

The bulk of the recent buyir has been done in the name of Main St — a nominee compar that is associated with Old Mu tual, Nedbank and UAL.

The identity or motive of th buyer is unknown (it is not Tra falgar), but aggressive buyin since December has resulted i the nominee lifting its stake fron four percent to 13 percent, mak ing it the largest single sharehold er.

Other significant shareholder include Investec with 10 percen (there is some uncertainty over a link between this stake and Prestasi); Sanlam with 9 percent; Metropolitan with four percent and CC Exchange (thought to be Prestasi) with four percent.

On the basis of short-term prospects and current asset valuations, analysts caution against shareholders looking to an Absa-type battle.

FNB cuts back on bad-debt provision

(58) Star 25/4/91

Diagonal Street

ANN CROTTY

A reduction in the charge for bad and doubtful debt helped lift First National Bank's earnings 19 percent to 214,1c (179,5c) a share in the six months to March.

An interim dividend of 45c (40c) a share has been declared.

The earnings performance is in line with market expectations, although interest margins did not make the sort of contribution expected.

The shortfall on this front was compensated for by a 10,3 percent reduction in the provision for bad and doubtful debts.

Although expectations are for a slower second half, analysts believe the sterling performance with regard to the income statement and the strength of the balance sheet will comfortably underpin the share price at its current level.

Total assets rose 12,8 percent, which appears to have put no pressure on capital requirements.

According to the end-March balance sheet, the group has total capital of seven percent, compared with the 4,5 percent required by the new Deposit-Taking Institutions Act.

This suggests that FNB's capital position will be comfortable for a few years, with no need to come to the market unless an acquisition opportunity arises.

Interest income rose five percent to R2,7 billion, with interest expenditure up 3,7 percent at R2 billion.

This reflects an improvement in interest margins, but not as significant as some analysts had expected. Net interest income was up 10 prcent at R725,7 million (R660,4 million).

The charge for bad and doubtful debt was down 10 percent to R131,8 million (R147 million). This was achieved despite the weak economy and it reverses the sharp upward trend of recent years.

FNB's chief financial officer Viv Bartlett says the sharp increase in bad-debt provision over the past two years was due to the implementation of a more rigorous system of credit risk management.

The introduction of this system initially kicked up the bad-debt provision but now the bank is enjoying the benefits of its rigour.

While it was understandably not possible to sustain the sort of cost controls achieved in recent years, management did well to hold the increase at 14,3 percent — other operating expenditure was up to R862,2 million (R754,4 million).

Pre-tax income was up 18 percent to R247,1 million (R209,2 million). The after-tax increase was 19,5 percent at R135,7 million (R113,6 million).

All sectors performed well. Mr Bartlett says Wesbank benefited considerably from improved interest margins and the tighter credit risk management.

Second-half performance is expected to be held back by a deterioration in interest margins, reduced credit demand and a weak business climate, which will continue to impact on the bad-debt experience.

Saambou to fight off takeover

58

GRETA STEYN

SAAMBOU directors are considering scuttling a new hostile takeover bid by pushing through the Fedsure deal without obtaining shareholder approval.

The directors face a strong possibility that shareholders will reject the transaction after Trafalgar Portfolio Managers made a new offer to minorities at 180c a share. The Fedsure deal values Saambou at 140c.

Saambou MD Johan Myburgh said yesterday the directors were not compelled by law to convene a general meeting of shareholders to ratify the transaction with Fedsure.

Myburgh said: "The JSE has assured us we would be acting within our rights if we went ahead with the transaction without a vote. The deal is being done with share capital controlled by the directors. We have until the end of June to decide whether or not to convene a meeting."

BDay 26/4/91

In terms of the Fedsure deal, Saambou will issue debentures to Fedsure. Conversion of the debentures to shares will give it a 30% stake in the building society group.

Trafalgar's offer is conditional on that transaction falling through and will close in mid-June.

MD Pieter Hougaard hopes shareholders will reject the transaction in the light of the new offer. He disputes whether Saambou will manage to avoid putting the Fedsure transaction to the vote, since the directors had made a commitment to shareholders.

He pointed out Saambou's announce-

☐ To Page 2

Saambou

BDay 26/4/91.

58

☐ From Page 1

ment at the beginning of February said: "A notice convening the required general meeting to obtain Saambou shareholders' approval will be sent to shareholders."

Neither Saambou nor Trafalgar informed the Securities Regulation Panel of the new offer and the panel approached Saambou for information after Press inquiries.

The panel told Saambou late yesterday afternoon to place an advertisement in the papers as soon as possible to inform shareholders of the new offer. In terms of the Takeover Code, all shareholders must be told about an offer without delay.

Hougaard is emphatic Trafalgar is an independent operator and not a front for another player. Trafalgar has a 4% stake in the building society group.

It is known Investec, with a stake of almost 10%, wanted to take over Saambou last year but that talks with the directors broke down. Bankorp has repeatedly denied having any interest in Saambou and so has First National.

NBS benefits from lower tax

SHARON WOOD

LOWER tax payments resulted in a 26% rise in Natal-based banking group NBS's attributable profits to R56,3m (R44,6m) in the year ended March 1991.

Pressure on funding costs from lower interest margins resulted in a 14% rise in pre-tax profits to R83,6m from R73,2m, the directors said.

The group increased its provision for losses on total advances to R64,9m (R37,1m) — also explaining lower pre-tax income growth of the bank.

A 6,4% fall in the effective tax rate in the year under review was attributed to assessed losses by its development company and a tax-free transfer made by its insurance company, they said.

NBS MD John Gafney said the bank expected further growth in earnings in the current financial year, but warned that the rate of growth could slow because of a continued economic downswing and pressure on margins.

Earnings rose to 96,6c (76,6c) a share. The bank declared a final dividend of 21,5c a share which brought the total distribution for the year to 34,5c (29c) a share.

Improved earnings flowed from a 29,9% growth in total advances which reached R6,0bn (R4,62bn) by year-end, directors said.

These were well covered by a 8% to 9% capital ratio — well above the 4,5% Reserve Bank requirement.

Mortgage advances rose by 25,8% and corporate advances by 67% in the year under review. NBS exceeded its 20% target for growth in mortgage advances and the large growth in corporate advances was a result of growth off a low base, they said.

An extraordinary item of R2,8m was a result of profits received from the sale of small buildings,

NBS merged its building society and banking subsidiaries to form NBS Bank on April 1.

UBS, Allied shares in stylish exit before delisting

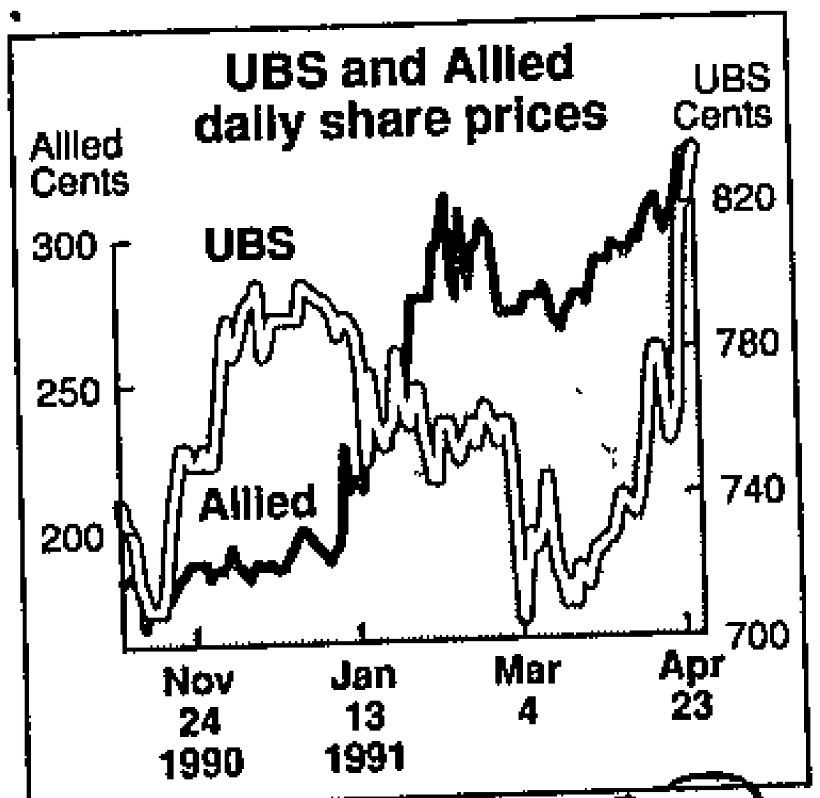
B/Day 26/4/91.

MERVYN HARRIS

UBS and Allied shares are making a stylish exit from the JSE bank sector before their delisting at the close of trading today and replacement by ABSA (Amalgamated Banks of SA) on Monday.

Both shares have scaled fresh peaks in heavy trade this week with UBS yesterday advancing 10c to close at a new high of 830c after touching 835c, and Allied climbing 7c to 315c.

Allied has risen on the coat tails of UBS as there will be an exchange of 100 UBS shares for every 260 Allied shares held. As Tuesday April 23 was the last day for Allied shareholders to have accepted cash in lieu of shares for 50% of their holding, analysts said there were no large loose parcels of shares to be placed.



Graphic: FIONA KRISCH Source JSE

58

ABSA will make its debut on Monday at the closing price of UBS.

Ed Hern Rudolph analyst Alan McConnochie said UBS fell from a high of 800c in December while other bank shares were roaring ahead. "UBS are therefore only now catching up with the other shares.

"UBS is expected to have a rationalisation benefit of at least R85m in the financial year to March 1992. This should translate into profit growth of about 11% in addition to normal growth so that the increase in earnings a share should be in excess of 20% in the current year."

McConnochie said that, relative to Firstbank and Nedcor, ABSA should be between 850c and 900c.

Saambou (58) board can decide

Star 26/4/91

By Roy Cokayne

A general meeting of Saambou shareholders is not legally compulsory to approve a Fedsure/Saambou deal that effectively scuttled the first offer from Trafalgar for a stake in Saambou.

So says Saambou group managing director Mr Johan Myburgh, who added that this had been confirmed by the Johannesburg Stock Exhcange.

"If it comes to the push, the Board of Directors will decided whether to go ahead with the deal or not. I'm not sure if the new offer from Trafalgar will influence Saambou's Board on whether or not to hold the meeting," he said.

Mr Myburgh said a date had not yet been set for a general shareholders meeting to approve the deal, "which must be held before the end of June".

NBS sets aside more for losses

58

Star 24/4/91

By Jabulani Sikhakhane

NBS Holdings increased provision for losses by 75 percent to R64,9 million (R37,1 percent) for the year ended-March. Total advances rose 30 percent to top the R6 billion mark from R4,61 billion the previous year.

Mortgage advances rose 25,8 percent and advances from the corporate banking division were up 67 percent.

Managing director John Gafney comments that high real interest rates make it difficult for borrowers to repay debt.

"This has already had an adverse effect on our arrears position and has resulted in an increase in the number of properties in possession."

Total assets increase from R5,76 billion to R7,46 billion and the net asset value rose to 642c (532c).

Earnings per share were up 26 percent to 96,6c (76,6c) and a final dividend of 21,5c has been declared making a total of 34,5c (29c) for the year which is covered 2,8 times.

Mr Gafney expects NBS to show further growth this current financial year, but warns that the rate of growth may slow because of the economic downswing and pressure on the margins.

NBS has merged its building society and bank subsidiaries to form NBS Bank with effect from April 1.

STANDARD'S PUBLIC SNUB

SHIFTING ALLIANCES

F M 26/4/91

58

OLD LOYALTIES UNDER NEW PRESSURES

Great earthquakes or upheavals are sometimes foreshadowed by unexpected small shudders — such as the one that occurred last week when Old Mutual's man unexpectedly raised his hand at Standard Bank Investment Corp (SBIC)'s AGM and succeeded before he left in blocking the banking group's attempt to increase its issued share capital.

Certainly it had to be seen as a public rebuke by a large shareholder, especially as three SBIC directors who are also Old Mutual directors retired that day from the bank's board. It smacked, too, of bad manners. For, at first view, it was no more than a routine and prudent provision that was being blocked.

Shareholders' meetings in this country are usually quiet affairs at which dissension rarely occurs. It is not often that the giant institutions disagree publicly. Differences are more likely to be settled in private. Until last week, SBIC was no exception. Nobody has outright control of SBIC but the big shareholders — some of whom compete directly with one another — have for years seemed to get on well enough.

The puzzle that investors and customers are trying to piece together now is what this sudden and rather petty public demonstration either means or masks.

One clue is that Donald Gordon, chairman of Liberty Life, which is SBIC's biggest shareholder with about 33%, is tartly criticising Old Mutual, a direct competitor of Liberty Life. But are Gordon's protestations justified? Could Mutual's vote have been more of a defensive nature — to protect its own (20,2%) SBIC interest, or the competitive position of Nedcor?

What is interesting in the circumstances, is that Mutual was not the only shareholder unenthusiastic about the proposal, which could be seen to have the potential to upset a delicate balance of power. Holders of about another 10m shares took the more polite, but equally effective, route of abstaining. A special resolution requires the support of at least 75% of shareholders represented at a meeting, either in person or by proxy. Rembrandt, holder of 10,5m shares or 10,7% of SBIC, has that honour — its abstention ensured the proposal would fall flat.

That raises another possibility. Have longstanding relationships between powerful institutions and their shareholders been altered by the recent formation of Amalgamated Banks of SA (Absa), the new and giant financial services group in which some of the institutions and their shareholders already mentioned also have interests? Could this have raised dormant susceptibilities and subtly altered allegiances?

Cross-holdings between SBIC and Liberty, as well as the role the former will play in anointing Gordon's successor, mean that these two groups have grown increasingly like Siamese twins. When Mutual and Rembrandt chose to snub the SBIC board's plan to increase the authorised share capital by about 20% more shares, leaving 33,5% of the shares under the discretion of the directors, they were snubbing Gordon too.

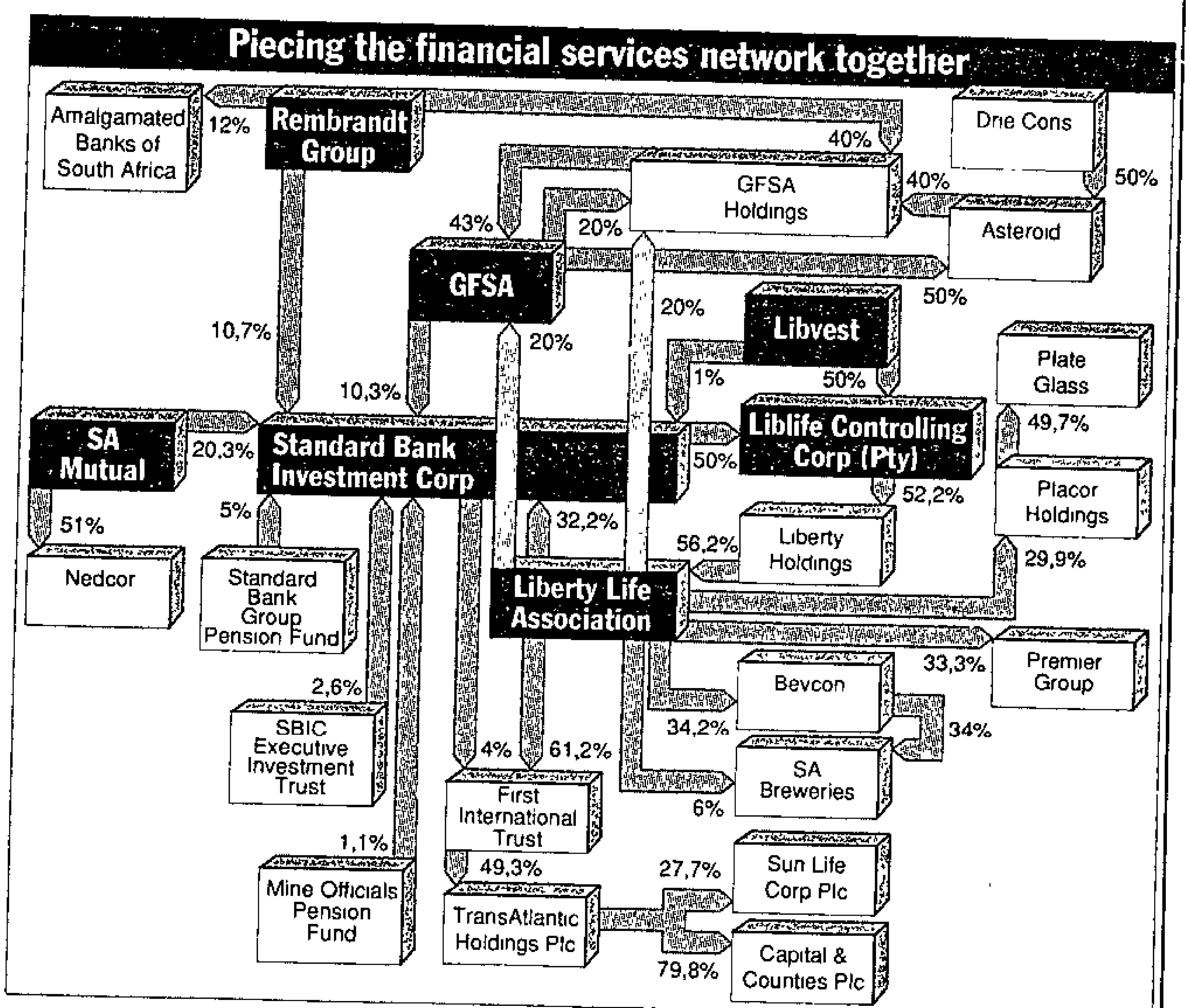
Until recently, that would have been almost unthinkable. Mutual and Liberty, of course, are old rivals. But Gordon and the Rupert family (controlling shareholders of Rembrandt) are personal friends. Each has supported the other in their financial activities. Richemont, for example, has about 20% of Liberty's UK company, TransAtlantic; Richemont and Rembrandt are among Liberty's major portfolio investments. Both parties participated in the GFSA deal when Cons Gold sold out.

But both Gordon and Rembrandt have let it be known that things are no longer the same between them. A rift occurred some time ago and deepened when Rembrandt consolidated most of its other interests in the financial services sector in Absa, thereby creating what could turn out to be a tough competitor for SBIC and, potentially, Liberty, when substantial insurance interests are also brought together.

Gordon says he felt that, as he had been instrumental in Rembrandt acquiring its stake in SBIC, Rembrandt should relinquish its SBIC shares when Absa was formed. He proposed an arrangement which would have resulted in Liberty buying the SBIC shares, while Liberty would sell its 7% holding in UBS.

Rembrandt did not find the terms of the proposal attractive and retained its SBIC shares. Liberty lodged a proxy supporting the Absa resolution, but Gordon says he remained concerned that a competing interest was holding a powerful position in SBIC which was not far short of the stake held by the SBIC-Liberty axis.

He made his concerns and criticisms known around town. When this reached Rembrandt, especially deputy chairman Johann Rupert, his reaction was swift and pointed. Immediately before the shareholders' meetings of Absa, Volkskas and Allied on March 26, Rembrandt started buying



Piecing the financial services network together

Financial Mail

VAT EXEMPTIONS

READING HIS LIPS

FM 26/4/91

After the considerable deliberations of the VAT Committee (Vatcom), most taxpayers could be forgiven for believing that the introduction of VAT would proceed smoothly with most technical and other difficulties of implementation ironed out.

That patently has not been the case. And since the Budget, when the details of the tax were announced, government and the tax authorities have shown precisely how ill-prepared they are for the task ahead.

If he has been correctly reported, then a Finance Minister who declares to parliament that he does not fully understand a tax he is introducing might have admirable candour, but is hardly likely to inspire confidence and be able to deflect future special pleaders.

Government has made three important changes to its VAT proposals. It intends to review the upfront payment of VAT on imports at the time of clearance. A 15% depreciation concession to counter deferral of purchase of capital goods until after September 30 (see *Economy*) has been introduced. And it has relinquished VAT on municipal rates (but not on other municipal charges).

We take issue less with the changes than the way in which they have been conceded. After consideration by Vatcom, every departure from the principle of widest possible inclusion should not be considered lightly.

If government had felt that there were reasons to have overruled Vatcom, it should have done so when the final VAT Bill was being drafted. In none of these three cases was this done. This sort of ad hoc response invariably erodes the coherence and veracity of the tax system. For last-minute changes always have a knock-on effect and require further patchwork later.

What is not quite so obvious, is the harm done to the prestige and reputation of government itself. A government that announces its irrevocable decision on a fiscal matter, only to be blown off course by its own stumbling or by determined lobbying, must be perceived as vacillating.

The exemption of VAT on rates is evidently a matter of political expediency as the issue of double taxation was well canvassed earlier. The problems of freight forwarding agents obliged to pay VAT upfront to clear imports were as evident when Vatcom convened as now.

It was equally evident that manufacturers would defer purchases of capital goods if a full input tax credit was available from VAT's inception.

Every concession, however justified, undermines the principle of non-exclusion and will make VAT increasingly more difficult to apply to maximum advantage. ■

BLACK EDUCATION

EXPELLED FROM SKOOL

FM 26/4/91.

The situation in black schools is deteriorating by the day and — with the spread of unrest to technikons and universities — has again become a significant vector of social instability. Last year's matric failure rate is likely to be repeated; more thousands of unemployable illiterates will spill into the streets.

In some areas conditions of anarchy prevail. In Katlehong and Thokoza on the East Rand this week, *all* black principals were physically chased off school grounds — "expelled," apparently, by something called the SA Democratic Teachers Union — and at a technikon near Pretoria thousands of students began a sit-in to protest against high fees and the appointment of white lecturers whom they alleged were pensioners.

The students' problems are well known: overcrowding, inadequate teaching, a lack of textbooks and so on. Added to this is the "pass one, pass all" philosophy which demands that failures be readmitted indefinitely, and the idea that government has to provide a free educational ride for all.

Oddly enough, government *is* attempting to meet some basic demands — as demonstrated in the Budget when Barend du Plessis announced a 24% increase in Education & Training expenditure (to over R2,5bn) alone. An extra R28m was allocated to the creation of new teaching posts this week in addition to the R53m obtained by the Department of Education & Training to create 1 500 new posts at the beginning of the year. Quotas for formerly white universities have been abolished.

Obvious wastage and inequality still need to be addressed — the closure of white schools because of a "lack" of students; the continued fragmentation of the educational authorities. But when students take it upon themselves to judge the issues, allowing political priorities — if that is what they are — to rule the schools, then the lunatics really have taken over the asylum.

Lack of respect for authority is one thing, particularly since the inherited black education system seems corrupt to the core; but lack of respect for learning seems suicidal. It helps to create a culture in which the role-models are not figures like Nelson Mandela but car hijackers and drug or arms dealers. The American experience shows how long such a culture of failure can endure.

Unfortunately, Mandela and the ANC appear too concerned to reimpose sanctions and break off negotiations than to do very much about black schooling — though this is supposed to be the year of education. Fine words are spoken; nothing is done. To the degree that they are culpable, they are sowing dragon's teeth. ■

SBIC shares. Purchases were made through Rembrandt's usual brokers, and no special effort was made to conceal the identity of the buyer. Rupert has confirmed Rembrandt was buying the shares and has said the buying programme has ended. It seems the purpose was less to accumulate a strategic interest than to send a message to Gordon: two can play the same game.

Gordon confirms that his relationship with Rembrandt (and the Ruperts) has cooled. "We still visit each other socially," he says. "But their going with Absa does change things a little."

But Rembrandt was not the only buyer. Liberty, too, started buying SBIC shares, presumably in an effort to ensure its own position would not be weakened. In total it bought "less than 0,5%," though this was before the price surge. Gordon says Mutual was also a buyer, and was responsible for most of the trading at around R50 a share.

The trade in the tightly held SBIC share was hectic, with the buyers showing little regard for fundamental value. SBIC chairman Henri de Villiers readily concedes that the price was being pushed to demanding levels and remains so, as the current price is around R45.

Given the uncertainties that suddenly arose, much of this trading — which during March only added up to about 2,1% of SBIC's issued shares — may well have been defensive. The same may be said of the blocked proposal at last week's AGM. Where relationships had long been comfortable, and based on cosy understandings, suddenly all is fluid and "understandings" are no longer enough.

It may equally be thought that there was more to it than prudence, and there are well-founded concerns that a definite game plan is being pursued. Attractions in SBIC are plain: it is a profitable, well-managed banking group that could be the key to the control of Liberty in the long term — though that is not guaranteed.

Gordon confirms that some years ago he decided SBIC should have the right to appoint his successor as executive chairman of Liberty. That, with SBIC's 50% stake in the Liberty pyramid company, Liblife Controlling Corp (Pty), will ensure the banking group will have considerable influence in the assurer. But it will not necessarily acquire outright shareholding control.

Liblife Controlling Corp is held equally by SBIC and the listed Liberty Investors (Libvest). Should Gordon retire or die, the family trust retains control of Libvest. This company has the right to request SBIC to sell its shares in Liblife Controlling Corp to Libvest; but if that right was triggered, then SBIC would have the choice of either accepting this or taking out Libvest's shares at that price. However, Libvest is the only party that could initiate this mechanism.

Speaking after the SBIC shareholders' meeting, Gordon left no doubt that he wants to see Liberty's position strengthened further. "What needs to be reinforced is that there can't be interference from outsiders in terms of our relationship with SBIC," he says. "We are almost there now."

Just how secure he would like to make that relationship, and what options have been considered, were not explained. Apart from Liberty's own stake in SBIC of 33%-odd, and the 1% held by Libvest, Gordon believes the 5% held by the Standard Bank Group Pension Fund would be voted with Liberty (and the SBIC board) in any showdown, as would the 2,6% held by SBIC Executive Investment Trust — adding up to a secure-looking figure of about 41%. To threaten control seriously, the next three largest shareholders (Mutual, Rembrandt and GFSA) would have to act together.

De Villiers contends there is no special significance in the size of the share issue. The value of the issue was planned at about R1,2bn, but was lifted to about R2bn by the surge in the price. The stated purpose was to provide capital for future growth, for the plan launched this year to issue scrip in lieu of dividends, and for issue of shares to management under the share option scheme. While no specific proposals to finance growth through issue of shares are being

nsidered now, acquisitions
uld be made.
This sounds reasonable
t it is also rather open end-
' At least one significant
reholder feels the pro-
sed issue was simply too
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ry resolution (with appro-
' of a simple majority), but
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lution, which enables
es to be blocked by a mi-
ity shareholder.
De Villiers says without
intended increase in au-
ised capital, the group is
with surplus capital of
out 15m shares. "That is
right for now, and our
with should not suffer, but
r or later we will have
go back to shareholders,"
says. "Some water will
to flow under the
ge first." There is no need for a rights
ue for the next several years, though De
iers points out that the issue of shares
ead of dividends is in the nature of a
issue.
The planned share issue was not unduly
ge. After rights issues and mergers by
banking groups, the surplus capital
ld have been above the local average, but
necessarily out of line with international
ks. A merchant banker says many local

Levett

De Villiers

companies have a larger proportion of shares under control of the directors, and clients are often advised to increase their capital to avoid signalling plans such as a rights issue. The financial flexibility and, in this case, improved ability to ensure compliance with the capital ratio requirements of the Deposit-Taking Institutions Act, may be a further consideration.

Clearly, though, the veto of the share plan emphasises the sensitivities of shareholders in the present context. For that matter, Gordon, in combative mood, does not quite give the impression that it is business as usual. As the Sun Life board would attest, he is no stranger to shareholder battles.

But it is questionable how much room Gordon or the other protagonists really have to manoeuvre in the current climate. The Takeover Code would almost certainly be a constraint for Liberty; as it already owns more than 30%, an acquisition of a further 5% during a 12-month period would trigger the requirement for a full bid at the highest price paid.

It is easy to speculate on motivations. If Mutual could take control of SBIC, that would raise the possibility of merging their insurance interests into a mega-assurer, while Nedcor, a Mutual subsidiary, could be moved into SBIC. From Rembrandt's standpoint, a successful move on SBIC could enable a deal between Absa and SBIC, with Liberty and Momentum put together.

At present this all sounds like fantasy. The idea of the Competition Board allowing such megamergers sounds preposterous. But perhaps in five or more years such restrictions will have vanished, and strategic positions taken now will become crucial.

Mutual chairman Mike Levett simply says Mutual's policy is never to comment on particular companies or situations. That may be all right as an investment tactic. But other SBIC shareholders deserve to be told just why the share plan was vetoed — and whether concerns about Nedcor's competitive position was a factor.

Before deciding on its next move, SBIC's board wants to rebuild some bridges. This will be done partly through discussions with major shareholders. It could also be achieved partly through new board appointments.

At last week's AGM, three directors retired — former GFSA chairman Adriaan Louw, Safren chairman Alistair Macmillan and former Barlow Rand chairman Mike Rosholt. These, interestingly, are all members of the Mutual board. However, De Villiers emphasises they were SBIC directors before joining Mutual; company rules require directors to retire at the AGM after their 70th birthday. New appointments will probably be announced in about a week. Rembrandt does not have a director on the SBIC board, apparently out of concern about conflicts of interest — though SBIC regards Joep de Loor in that light.

But then virtually none of the big players in corporate SA is disinterested, or can easily avoid conflicts of interest. That is the essence of the drama to which Old Mutual's protest last week points. Even if bruised relationships are repaired soon, the advent of the DTI Act and its redistribution of competitive advantage and the emergence of Absa, and the new relationships it has forged, makes certain that the financial services sector is in for a period of flux and there will be more surprises.

Andrew McNulty

CAPE INVESTMENT BANK FM 26/4/91

WHO PAID WHOM? (58)

The Reserve Bank denies it played a major role in the deal which led to Prima Bank buying 49% of the troubled Cape Investment Bank (CIB) in December.

CIB was put into provisional liquidation on April 11 when, investigations by the auditors and Rand Merchant Bank revealed that it was trading while insolvent.

Deputy Registrar of Deposit-Taking Institutions Christo Wiese denies that his Registrar encouraged the takeover. Reserve Bank Governor Chris Stals denies that the Bank was involved. He suggests this assumption may have been made because of assistance given by the Bank to banks in the past.

Wiese also denies that the Registrar and Prima assured depositors, such as SA Rail Commuter Corp, that their deposits would be safe once Prima had taken over.

The takeover failed, apparently because the problems were beyond Prima's ability to remedy. Prima is a small bank which specialises in money, bond and derivative markets. Initially reluctant to take on the responsibility, it realised the extent of the problem once it started renegotiating CIB loans. Investigations showed bad debts amounted to R115m.

There is uncertainty whether Prima owes Pichold money. In a statement last Thursday (see *Fox*), Pichold told shareholders one condition of the agreement was that Pichold would get a minimum price — 20% of tax losses up to December 31 1991. One estimate is that this would amount to about R12m. However, if the company is insolvent, there can be no question of a tax loss.

Another issue is whether Prima should pay CIB Group for any of the subsidiaries it took over, such as CIB Leveraged Investments and CIB Project Finance. But Prima MD Johan Bellingan claims this involved mainly taking over people and Prima will not have to pay a cent.

Any equipment taken over by Prima from CIB's Cape Town office, which now trades under Prima Bank's name, will be bought from the liquidators. If Prima has to pay anything, it will be for CIB's loan accounts.

Pichold's statement also claims the group gave no warranties to Prima in respect of assets or liabilities of CIB "and does not hold itself responsible in the event of there being a deficiency therein . . ." It adds that Prima Bank stood surety for Prima Bank Holdings

Continue →

FM 26/4/91

and is therefore responsible for any debts.

Neither Bellingan nor Jan Pickard jnr will comment, except to say they have agreed not to disagree in public. When the *FM* sent Pickard a draft of this report he replied that he took issue with a number of points, but would not identify them.

Also unresolved is whether SA Rail Commuter Corp or one of its officials received a commission for placing deposits with CIB. Transport Minister Piet Welgemoed has decreed that no statement will be made until the investigation he ordered is complete. He was not available on Tuesday for comment. Finance Minister Barend du Plessis refused to answer questions relating to the commission put by DP finance spokesman Ken Andrew until Welgemoed's investigation is complete.

Commission on SA Rail Commmuter Corp's R249m deposits is rumoured to have been routed through an intermediary, allegedly a stockbroker. Pickard says, to his knowledge, CIB policy was not to pay commissions.

Many banks do not pay commissions but some negotiate them with intermediaries and individuals who make large deposits. A commission could be paid directly in cash or put into a special fund to be used mainly for "entertainment" of the client. ■

FM 26/4/91 (58)

ALLIED DEPARTURES

Three senior staff members will soon leave the Allied Group, which is now part of Amalgamated Banks of SA (Absa). On Tuesday building society MD Don Hunter announced his resignation. He has no plans but might go into a field unrelated to banking.

The formation of Absa, which took Allied into its fold last month, forced him to review his career prospects, he says. He stresses that Absa CE Piet Badenhorst is not the reason for his resignation. No replacement has been announced for Hunter who will stay until June 30.

At the beginning of the month GM André Latré announced he would be returning to First National Bank, which he left several years ago to join Allied. He will leave on May 31. In that environment he won't have to worry about the insecurity of the possible job rationalisation which goes with a megamerger.

Allied Group's senior GM, group finance, Bruce Vermeulen, is also leaving — to join NedPerm.

"When there's a merger you have to review your opportunities in the market," he explains.

DEPOSIT INSURANCE FM 26/4/91

STRIKING A BALANCE (58)

When the Reserve Bank stepped in to protect those with deposits of up to R5m in failed Cape Investment Bank it raised once again the question of how, or whether, depositors should be protected.

Without some safeguards, the person in the street stands to lose the savings of a lifetime, the banking sector is hostage to the fortunes of its most wayward members and the entire financial system is vulnerable to the domino effect of one bank failure.

But if all risk is underwritten, the disciplines of the market fall away. Depositors and shareholders are relieved of the responsibility of making an informed choice, and management is handed a licence for imprudence, while the taxpayer picks up the bill.

Traditionally, the Bank provides liquidity to banks which are still solvent. On occasion, its role as lender of last resort has been stretched to assist those the market considers no longer deserving of this description This implicity provides consumer protection. Over the years, the Bank has launched a number of rescue operations.

An option is a deposit insurance system. Most countries which have deposit insurance attempt a compromise between stability and discipline by setting a limit that protects small (or smallish) depositors but leaves larger depositors to exercise judgment. The US Federal Deposit Insurance Corp is run by government; in the UK, government made banks set up a similar scheme.

Such a scheme was mooted in SA in the Seventies.

Its feasibility was investigated by Japie Jacobs, now special adviser to the Minister of Finance and formerly senior Deputy Governor of the Bank. The proposal met resistance from big banking groups and was put to rest by the 1984 De Kock Report on the Monetary System & Monetary Policy.

In the report, then Bank Governor Gerhard de Kock noted deposit insurance had been introduced in Britain and the Netherlands, but rejected the system for SA because:

- The limited number of banks would make it hard to run on sound actuarial principles;
- Heavy concentration would mean that large banks, generally regarded as immune to adversity, would feel themselves unfairly

FM 26/4/91 (58)

burdened, making insurance contributions essentially to ensure the safety of deposits held with less secure competitors; and
- Group formation among banks further reduced both the need for a deposit insurance system and the basis on which such a system could be run equitably.

Since then, says Stals, the idea has remained on the shelf However, many see it as preferable to the present role played by the central bank.

They argue that, however vigorously the authorities say they'll never again come to the rescue, the market tends to rely rather on past experience.

And the arguments against the scheme are not irrefutable. For instance:

- A risk-related premium would reconcile market discipline with consumer protection, while eliminating cross-subsidisation; and
- Group formation does not extend to many of the smaller banks which have lately caused concern, nor did it keep some bigger banks from the brink of disaster.

The difficulty of establishing statistical probabilities in a small market remains, and is compounded by the problem of quantifying risk. Two major components of banking failures are bad credit exposures and poor management.

Evaluating the first is difficult but possible; the capital requirements imposed by the Deposit-Taking Institutions Act embody such an evaluation.

Measuring management risk is less precise. The definition of "fit and proper per-

Continue

son" is open to a number of interpretations and, in a country suffering from a dearth of skills, can be stretched to breaking point.

Price risk, a third element, totally defies quantification This arises from recent developments in asset liability management and, for some niche players in the money, capital and foreign currency markets, is the principal risk. The highly sophisticated mathematical models required to measure this risk have attracted rocket scientists and other mathematicians to banking.

Yet without a link between risk and premium the system is open to abuse and, moreover, carries the seeds of its own destruction. In the US, for instance, deposit insurance funds are dwindling under the impact of banking and savings & loan failures.

A deregulated, uninsured banking system would reduce costs to consumers, increase profitability and ensure that bad banks paid the ultimate penalty.

However, the political costs are high. In no country is it considered a practical alternative. In the absence of any solution, authorities generally muddle along, taking whatever ad hoc measures seem to be needed.

A solution may be found in the market. For instance, deposits may be privately insured, either by the depositor or by the bank, which will then adjust its interest rates.

Another innovative approach, which offers a range of consumer choice, was recently explored by *The Economist*: "Suppose that a bank account were a claim not on a fixed amount of money but on a share of an underlying investment — a basket of certificates of deposit, Treasury bills and other safe, fixed income instruments. The value of the account would fluctuate with the value of the assets in the basket.

"But the great advantage of such an instrument is that it would be naturally resistant to runs. Any fall in the value of the assets would be immediately reflected in the value of the deposit so there would never be a one-way bet. A run on the institution would therefore be much less likely. Moreover any fall in the value of such assets would automatically mean an increase in their yield; the income to depositors would rise. If a run did start, it would be partially self-correcting."

The Economist points out such schemes already exist in the shape of money market mutual funds (MMMF).

"Uninsured interest-bearing deposits would be at a competitive disadvantage against MMMFs . . . Fixed claim deposits would doubtless still be offered but the banks would have to back them with more capital and conservative portfolios of safe assets; these acounts would pay little interest." ■

INSURANCE FM 26/4/91 (58)

PAYING IN FULL

After a 30%-40% increase over the past 12 months in short-term insurance premiums, with at least a further 20% to follow later this year, motorists and householders are right to think premiums are getting out of hand.

Compared with a cross-section of countries, South Africans are rated punitively (see graph). The Netherlands distorts the picture, says Willis Faber Enthoven technical director John Haenen, because Dutch roads and services are funded from a premium levy.

Typically, comprehensive motor cover in SA costs more than 8% of the insured value. All-risks is about half that and household cover costs — at an average 2% — more than any country in the graph except Italy. Certainly, Haenen says, South Africans are having to confront the cost of the crime wave and standard of driving.

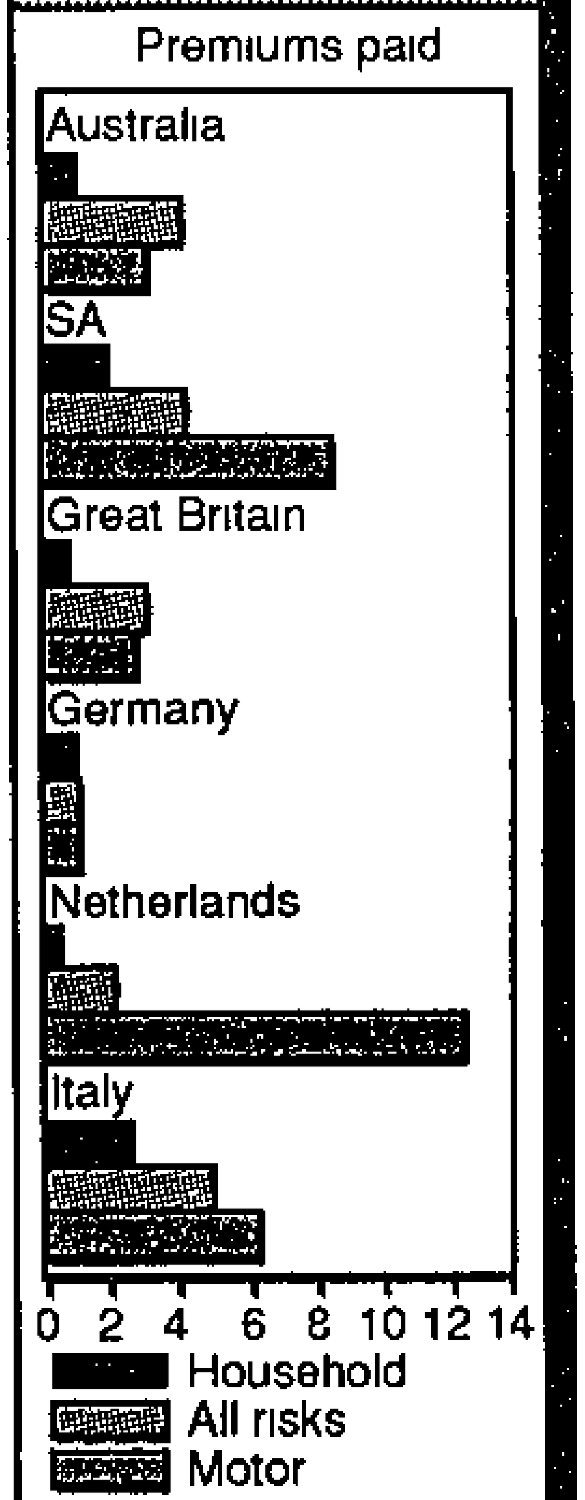
With personal lines comprising up to half of some underwriters' books, investment income down in many cases and a troubled reinsurance market, short-term insurers can stay in the black only through stiff premium increases. "Many are underwriting from cash flow at present."

Future rates will force householders and motorists to look for other options. Partial self-insurance for the man in the street, says Haenen, has little attraction. "Not many people can comfortably accept a R5 000 excess, for instance." Instead, he suggests, policyholders should look at their risk management. If they establish adequate safeguards against loss, their rates will reflect it.

"Look for loss control, not financial control, for the solution," he argues. He adds, not entirely humorously, that risk should not be displayed. "Consider buying a car that no self-respecting thief would steal."

As the graph shows, Britons and Germans pay relatively light premiums. Not shown is the Irish experience there, rates are higher than in SA but still lower for motorists than in the Netherlands. Argentina avoided supplying a comparison, says Haenen, but rates there are about three times SA's. ■

SA crunch



Source Willis Faber Enthoven

PICHOLD FM 26|4|91

THE COST OF CIB

(58)

The Cape Investment Bank (CIB) debacle could have serious long-term consequences for the Pickard group. Though liquidation of CIB may — and it is a big may — produce a dividend for creditors, shareholders will almost certainly lose their total investment.

It is too early to tell with any accuracy what the shortfall between CIB's assets and liabilities will finally be. All sorts of figures are being bandied about, one of which is R115m. Former CIB chairman Jan Pickard jnr notes that "this figure could be considerably less, even by as much as 50% if one takes into account that the Rand Merchant Bank valuation in the court papers is based only upon information available to it."

On the other hand, Prima Bank MD Johan Bellingan says R115m is conservative and there are more write-offs to come. Prima bought 49% of CIB in an effort to rescue it. Bearing in mind that CIB's capital base was just R38m, even if the shortfall were to turn out closer to Pickard's estimate, there is still little scope for shareholder optimism.

Before the sale to Prima, the Pickard group owned 40% of CIB. The *FM* understands there is a dispute between Prima and the Pickard group about the value of the purchase price. Whatever it is, the Pickards want their portion of it.

In a press advertisement placed by Picardi Holdings (Pichold) a week ago, eight points were detailed to describe how the purchase price was to be arrived at. But because no proceeds are likely to flow to Pichold from the liquidation, only the eighth could have relevance. It reads: "In the event of CIBG not having a net asset value the consideration shall be limited to the aggregate of R1 plus 20% of the tax losses as at December 31 1991 whether assessed or unassessed."

Pickard says the tax loss at the effective date, December 18, was in the region of R20m and his group is looking for at least its agreed share of that. In addition, it will seek for Prima to fulfil the rest of its contractual obligations. "We would not have entered into any contract with Prima had we not been satisfied that it could fulfil these," says Pickard. What the value of such recoveries may be, is anyone's guess.

Before publication of the interim results to December 31, Pichold harboured the group's

FM 26|4|91 (58)

R17m investment in CIB. A provisional write-off of R7m was made when it first became evident that CIB was in trouble; only the remaining R10m was reflected in the December balance sheet. If this now has to be written off, ordinary shareholders' funds will be reduced by a like amount to R65,5m and gearing will again rise above 1,3.

At first sight this may not seem so bad. But the only operating company in the Pickard stable is Picapli, manufacturer and marketer of white and brown goods. Picapli has had a rough passage over the past two financial years and has suffered substantial losses.

Having slimmed itself down, the 1991 financial year was targeted to produce attributable income of R10m. But in these recessionary times, some scepticism that this figure can be achieved is not out of place. Pickard says that so far it is still on track, and is optimistic about the final outcome.

Picapli remains heavily geared. So poor results now, for whatever reasons, will almost certainly render it unable to float a rights issue, badly needed to minimise the cost of financing debt. Moreover, since most of Pichold's earnings come from Picapli, it will also influence Pichold's ability to raise further capital.

But the worst is that the demise of CIB has cast grave doubts on the ability of the Pickards to manage the investments under their control. This perception will not change until a good earnings record has been restored; and this could take years.

The best case is for the Pickards to recover some proceeds from CIB and for Picapli to make budget. If neither eventuates, the long-term future of the group could be precarious, weighed down as it is now by debt as a result of losses.

Gerald Hirshon

Stockbroking staff suspended

CAPE TIMES 26/4/91

58 (1a)

Own Correspondent

JOHANNESBURG. — Fictitious gilt transactions at stockbroking firm Kaplan & Stewart aimed at hiding deals from the JSE inspectorate has resulted in the suspension of a director and the restriction of the activities of an authorised clerk.

This emerges from two confidential JSE circulars posted on the JSE noticeboard for internal consumption.

The director, Karen Claassen, was suspended for 18 months. The authorised clerk, Yolanda Uljee, was prohibited from dealing with the exchange for five years.

Claassen is understood to have resigned and will soon be leaving the firm. Uljee no longer works there.

Kaplan & Stewart senior director Malcolm Stewart confirmed the suspension, but declined to comment further, or indicate whether there had been similar incidents at the firm.

A market source said the irregular deals involved the "parking" of certain gilt transactions in client accounts to hide them from the JSE inspectorate.

The apparent reason for this move is the requirement that certain classes of gilt trades be limited by the amount of security lodged with the exchange. Hiding deals enables this limit to be exceeded without the need to lodge additional security.

Inspectorate head Ian Fullerton confirmed the accuracy of what he called the "parking theory".

Acknowledging that this was "one of the more serious types of misdemeanours", he said the inspectorate looked at open gilt positions on a daily basis.

"We pick up this sort of thing," he said, and confirmed that one other JSE member had been suspended within the past 12 months for the same reason.

Fullerton described the incidents as "confined" and not linked to the investigation into the Old Mutual affair.

Standard bonds for cheap houses

S/Times (Bus) T 28/4/91. (58)

By DIRK TIEMANN

STANDARD BANK has entered the low-cost housing market, hoping to finance 700 new bonds a month by 1992.

At an average of about R30 000 each, this would mean bonds worth R21-million a month.

Previously, Standard did not grant bonds of less than R40 000.

The bonds are not subsidised and are subject to normal interest rates.

Standard Bank senior general manager Dennis Matfield says more than R400-million has been committed to this market for the next three years.

The value of the houses to be financed is between R12 500 and R35 000. Bonds will be granted on houses in eight projects.

The scheme began in December 1990 and 320 bonds have been granted.

Mr Matfield says the scheme has had a slow start and developers have been selling little in spite of the housing shortage.

"It might be that people are waiting for an Independant Development Trust (IDT) gift."

Mr Matfield says the bank's risk on each bond is limited to 60% because the Urban Foundation's Home-loan Guarantee Company (HGC) underwrites 30%. HGC has received R8-million from the UK, Germany and others and R12-million from SA companies.

If a R30 000 bond is applied for, the applicant supplies 5% in cash or an employer guarantee. The bank makes 95% of the bond available and takes out two collateral insurance policies — 15% deposit replacement cover and 15% supplementary — underwritten by the HGC.

DENNIS MATFIELD: R400-million to spend in three years

First National and the Perm also provide funds for low-cost housing through HGC's guarantee arrangement, says Urban Foundation general manager Frans Pretorius.

Mr Pretorius says others have withdrawn from the market mainly because of the threat of boycotts.

Contact

"Another reason is that mortgage packages are designed for the First World and banks generally do not have the staff for dealing with borrowers at the Third World level, where one-on-one contact is essential."

First National has also committed about R400-million to the HGC scheme. Assistant general manager, banking, Pat Lamont says the bank believes that the R12 500 to R35 000 market is ignored.

"The market below that is not for the institutions. The argument is the old one of one bond worth R100 000 being more profitable than 10 worth R10 000."

Mr Pretorius says 65% of black South Africans cannot afford a bond of R12 500, Standard's minimum. State-sponsored workers can on average afford to buy a house costing R35 000.

HGC has a loan book of R3,5-million. It was lent to 90 community groups, which in turn lent to 1 300 individuals. Mr Pretorius says lending to groups has proved to be successful because peer pressure among members ensures repayment. The groups determine their own credit limits.

Mr Pretorius says the IDT's "chips" (collateralised housing investment paper) developed by it, UAL Merchant Bank and the Urban Foundation has raised R120-million, which is available to financial intermediaries.

The loan guarantee mechanism has raised R57-million.

Standard would like to see at least four players in the low-cost housing market because it does not want to increase its exposure to more than 25% of its book.

Mr Pretorius says 1 900 loans have been issued since November 1990, which is 63% of the 3 000 total the Urban Foundation expected between July 1, 1990, and June 30, 1991.

FNB on the way to a better market rating

S/Times (Bus/T) 28/4/91. (58)

By DIRK TIEMANN

FIRST NATIONAL BANK's interim results should improve the market's view of it.

The bank believes it deserves a higher rating than it is given.

FNB has one of the lowest price earnings ratios in the sector at a historic 8,7.

The NBS is highest with 10,9, followed by Standard (10,8) and UBS (9). Nedcor is on 8,3.

FNB managing director Barry Swart says he would like to see a PE of 12.

"We are underrated in the light of our performance. Perceptions in the last 15 months have changed substantially. We are cleaned up, focused and do not have any skeletons in the cupboard. Morale is up and the profitability is there."

FNB's results for the six months to March 31 should reinforce the strong share price of recent weeks.

The price was R28 before the battle for the Allied started and is now R40.

Pre-tax income increased by 18,1% to R247,1-million. The 0,6% decline in the tax rate of 45% meant a 19,5% increase in taxed earnings to R135,7-million.

Earnings a share rose by the same percentage to 214,1c.

Transfers

Net interest income was up 9,9% at R725,7-million. Mr Swart says growth in interest income exceeded that in interest paid for the first time since he took over as managing director in 1989.

The charge for bad debts fell by 10,3% to R131-million. Operating expenditure increased by 14,3% to R862-million.

Transfers to reserves fell by 55,8% to R2,3-million. Retained income was up 27,8% at R115,9-million, fuelling speculation that FNB might be looking for a takeover, NBS being the most likely target.

Mr Swart says FNB will wait and see if NBS needs a big brother. FNB has 10% of NBS.

FNB increased assets by 12,8% to R33,4-billion. Last year there was negative growth on the balance sheet.

Mr Swart says balance-sheet growth was restrained in the past because of the emphasis on profitable business. Advances have risen by 12,6% to R26,5-billion, ordinary lending being the biggest contributor.

Large contributions were made by Wesbank and the home-loan business. Mr Swart says March was a record month for new business written by Wesbank.

FNB is well positioned in terms of capital requirements under the new Deposit-Taking Institutions Act. The capital to assets ratio stands at 7% compared with the required 4,5%. Banks will be required to hold 8% in 1995.

Home loans carry only a 50% risk weighting compared with ordinary ones, reducing the capital requirements. FNB has a book worth R3,8-billion and R1-billion in the pipeline.

Minimum

Mr Swart says there is a five-month lead before home loans are on the books.

FNB increased the home-loan book by R1,5-billion in one year a few years ago and it could be done again at minimum cost, says Mr Swart.

He believes higher returns on assets are important to meet the 1995 capital requirements. FNB increased its return on assets to 0,93% compared with 0,88% for the same time last year. It is aiming for 1,2%, but it will be difficult to achieve.

Dividend increases will have to be restrained or new capital obtained to meet the 1995 requirements, says Mr Swart. Dividends on ordinaries were 12,5% higher at 45c. Dividend cover has increased to 4,1 times and FNB hopes to restrict it to about 3,3.

BARRY SWART: No skeletons around

Saambou needs us — Trafalgar

(58) S/Times (Bus/T) 28/4/91.

By DIRK TIEMANN

TRAFALGAR Portfolio Managers, which has offered to buy 30% of Saambou, believes it can help put the building society's assets to better use.

Trafalgar managing director Pieter Hougaard says Saambou's results — due in the next few weeks — should show it has been underperforming.

Trafalgar is a mystery in financial markets and it is suspected that it is a front for another institution.

Mr Hougaard denies market talk that Trafalgar is fronting for Prestasi Insurance Brokers.

He says Trafalgar has been in place for little over a year. Mr Hougaard and partner Johan Redlinghuys were merchant banker at Finansbank. They intend financing about R50-million for Saambou from "own sources and loans".

Mr Hougaard says the Securities Regulation Panel and Saambou are satified that Trafalgar has sufficient funds.

Mr Hougaard says too little is known about the Saambou-Fedsure deal announced in January. Saambou would buy Planet Finance Company from Fedsure in exchange for convertible debentures worth R55-million.

This exchange would would give Fedsure 30% of Saambou.

Saambou directors have approved the deal, but may approach shareholders for approval in the light of the new offer by Trafalgar. The Fedsure deal is valued at 140c a share.

Saambou managing director Johan Myburgh says the directors have no legal obligation to seek shareholder approval for the Fedsure deal because the debentures issued are under their control.

Mr Hougaard says Trafalgar has covered itself by making its offer, worth 180c a share, conditional. The offer depends on the Fedsure deal falling through.

Mr Hougaard says he would not want Trafalgar's offer to be diluted if the convertible debentures were issued to Fedsure and the deal turned out to be no good. Should the Fedsure deal be ratified by shareholders and Trafalgar think it is a good deal, the offer would still stand.

Mr Hougaard says a formal offer has been made to acquire the shares and the documents are with the Securities Regulation Panel. The panel's Doug Gair cannot confirm the claim.

Mr Myburgh says numerous benefits are to be derived from an association with Fedsure.

"We need a big brother to support us with capital for growth. Our capital requirements under the Deposit-Taking Institutions Act are adequate, but expansion requires extra money.

"We want to build Saambou to a full-fledged financial institution offering all services."

HAROLD FRIDJHON in the Money Markets

Bureaucracy baffles banking brains

B Day 29/4/91

(58)

THE money market, hit by two Scud missiles (Reserve Bank Circulars 9/91 and 10/91), was completely flattened last week. Asset-trading was knocked for a burton and in the resulting confusion SA is now blessed with two rates for liquid 90-day bankers' acceptances (BAs), one at 17,45% and one at 17,05%.

If the bank which is quoting the 17,45% rate is not misreading, or misinterpreting the bureaucratic jargon in which these two circulars were couched (the Afrikaans version I understand being more obtuse than the English), BA finance, liquid and non-liquid, will be consigned to that museum housing relics destroyed by people who do not understand markets.

For those unaware of the contents of Circulars 9 and 10 — and perhaps for those who tried to interpret their jungle of words — let me try to explain, if I can.

I will not attempt to interpret the full circular, not only because of the limitations of space, but because I lack insight into the workings of the minds of people who contemplate in ivory towers.

Briefly these circulars are concerned with curbing the banks' off-balance sheet operations by preventing round-tripping and using promissory notes as a financing mechanism. The proposed regulations, as far as can be understood, refer, among other matters, to bankers' acceptances and particularly to the reserve requirements which banks will have to make when issuing them.

Holding cash reserves against BAs would neutralise funds and banks would be compelled to add the cost of funds to charges which clients would have to pay. But here lies the confusion in the minds of bankers. Some claim if they sell BAs to another deposit-taking institution the selling bank would then be relieved of reserving funds which would then become the responsibility of the buying bank. Other banks dispute this interpretation.

Some banks hold the view that making provisions for the full 90-day life of a BA is outrageous because it is only in the final 32 days of a BA's life that the holding bank becomes liable for reserve requirements.

If the Reserve Bank is unbending on this issue, BA finance could give way to the less-desirable, and more expensive, stratagem of overnight open loans which pop on and off balance sheets.

BAs were hot potatoes last week; no one in banking was keen to buy them which was a sad state of affairs because other money market assets were as scarce as butterflies in the Kalahari.

Perhaps when the Reserve Bank issues Circulars 11, 12, and so on, it would be helpful if, at the same time, explanatory handbooks were made available. This would lessen confusion.

And another thing. Have the circulars been scrutinised by people who understand markets? Theory goes a long way but it is still far from the practicalities of the marketplace.

Deputy chairmen for SBIC

THE Standard Bank Group announced on Friday that Barlow Rand executive chairman Warren Clewlow and Liberty Life group chairman Donald Gordon had been appointed joint deputy chairmen of Standard Bank Investment Corporation (SBIC). (58)

Institute for Multi-Party Democracy executive chairman Oscar Dhlomo and former KaNgwane chief minister Enos Mabuza have been appointed to the SBIC board from May 1. B/Day 29/4/91

These appointments follow the retirement from the board of Mike Rosholt, Ian Louw and Alistair MacMillan.

Management consultant Brian Rayner has been appointed to the board of the Standard Bank of SA and attorney Ben van der Ross has been appointed to the Stannic board. — Reuter.

SA bank invited to Ivory Coast

58

ZILLA EFRAT

THE African Development Bank (ADB) has invited the Development Bank of SA (DBSA) chairman and CE Simon Brand and Ciskei programme manager Salu Molapo to attend its AGM in Abidjan, Ivory Coast, in May as observers.

This is the first time the DBSA has been invited to such a meeting by the ABD. B Day 29/4/91.

A DBSA spokesman has confirmed that his bank would like to attend the AGM, to be held from May 6 to 9.

He said the invitation was extended because the DBSA was involved in similar functions as the ADB.

The ADB, which lends about $3,25bn annually, is reported to be preparing to admit SA as a member. Incorporation would allow SA to tender for bank projects. The ADB has 50 African and 25 non-African members and has financed 1 200 projects.

COMPANIES

African Bank's strategy pays off

(58) (NN) B10 29/4/91

GILLIAN HAYNE

THE African Bank emerged from a difficult period with a 15% increase in net taxed income to R571 423.

In the six months to end-March total assets rose to R240m from R214m.

CE Jack Theron said although it had been a difficult year, the African Bank was in a far stronger position because of the "tremendous improvement" in its capital base. Concerns over the company's under capitalisation were addressed at the beginning of the year when it opened its shareholding to all races.

The company's ordinary share capital increased by R255 000 in the six-month period and a further R600 000 has been received since then. Applications from the Ciskei People's Development Bank for 400 000 shares and the National Sorghum Breweries for 500 000 shares are the latest shows of interest.

Theron said he felt comfortable with the company's performance which was keeping pace with the requirements of the Deposit-Taking Institutions Act.

The group's past bad debt experiences have resulted in a more selective lending policy, with a significant increase in the home loan business in the TBVC states and homelands.

"All our housing loan business is in the black areas but we have not experienced any of the problems of other banks," Theron said.

While admitting that the African Bank was still too small to be really competitive in the banking industry, Theron said he was following a specific strategy

"By taking over and bringing together small divisions of financial institutions and development corporations solely doing business in black areas, we can establish a greater position of strength."

To this end the bank had acquired the Sibasa Savings Bank from the Venda Development Corporation and the Lebowa Savings outlets from the Lebowa Development Corporation.

Timelife doubles premium income after market change

B/Day 30/4/91

58

GILLIAN HAYNE

TIMELIFE Insurance, a subsidiary of Time Holdings, more than doubled its total premium income to R10,4m in its second full year of business, but only through a complete change in its target market.

The emphasis now is to target business through the independent broker market.

Timelife, SA's youngest life assurance company, was formed in February 1989 to provide mortgage protection insurance for Time Holdings' property subsidiary, Time Housing.

Timelife MD Bill Haslam said in an interview last week the black housing business had become "inconsequential" in the face of rapidly increasing business with the independent broker market.

"The independent brokers come to us with requests and we then create products which will meet those needs. The success of this approach can be measured by our average monthly premium which is R1 300," he added.

The life fund, indicative of new business growth, increased 95% to R8,6m in the year to end-December 1990, with investments rising 44% to R16,3m, despite the fall in the value of quoted equities.

A joint finance company administered by Timelife to provide loans to clients using their policies as collateral has grown substantially with advances worth more than R1m approved during the year.

Haslam said Timelife planned to "increase selectively its penetration of the independent broker market", which is concentrated in the PWV area.

● HASLAM

It is also striving to establish itself in the pension and provident fund market.

"We have an embryonic division set up with five schemes, which we will be developing," Haslam added.

Timelife has also received permission from the Registrar of Financial Institutions to operate a unit trust licence which is scheduled to be launched in 1991.

gulatory

Tucker leaves as Nedcor rides high

(58)

B Day 30/4/91

GRETA STEYN

NEDCOR yesterday announced an inflation-beating 18% increase in earnings to 90c a share for the six months to March, and said it was confident of matching the performance in the second half.

The group also announced the restructuring of commercial and hire purchase banking services and the resignation of Perm MD Bob Tucker.

Nedcor directors regretted Tucker's departure to play a greater role in social upliftment.

Nedcor's earnings achievement came despite a sluggish rise in non-interest income and a 19% jump in operating expenses. A lower bad debt provision (from R91m to R84m) and a lower effective tax rate helped the bottom-line.

But Nedcor CE Chris Liebenberg said the published income statement could be misleading as special factors, such as the UAL loss on finrands and the sale of an insurance broking subsidiary, distorted the figures.

Provision for the UAL loss had been made in the 1990 half-year and its exclusion shows bad debt provison rose by an effective 15% during the interim period. Non-interest income adjusted to exclude earnings from insurance broking grew by a healthy 22%.

On the balance sheet, assets grew by more than 20% from March 1990 with advances surging 27%. The group can afford to grow its balance sheet as it is in a comfortable capital position.

Its capital amounts to 7,25% of its assets — compared with the current statutory requirement of 4,5%. The international standard of 8% capital-to-assets will be fully phased in by 1994. Nedcor has at least R600m in surplus capital that puts it into a position to compete more aggressively for market share without fear of running into capital adequacy problems.

Liebenberg said capital had been conservatively calculated without revaluations on property investments.

In terms of the restructuring announced

☐ To Page 2

Nedcor

B Day 30/4/91. (58)

☐ From Page 1

yesterday, duplication between Nedfin, the Perm and Nedbank would be eliminated.

Peter Hibbert is to take over from Tucker at the helm of the Perm from June, while Chris Beatty leaves the Board of Executors to become Nedfin MD. Other new appointments from outside the group are Brian Wegerle, of Middelburg Steel & Alloys, as GM human resources, and Bruce Vermeulen, formerly of the Allied.

The Perm said yesterday it had been Tucker's suggestion that the Perm be pulled closer to the other banking units of the group — notably Nedbank.

Top performers in terms of earnings growth in the group were Nedfin, UAL and Finansbank, although Liebenberg noted that adjustment to take account of special circumstances revealed a 30% profit increase for Nedbank while Finansbank and UAL fared much worse. Nedfin's earnings increase remains above 70% even after adjustment.

● See Page 8

Insurers are linking car and household policies

B Day 30/4/91

SEAN VAN ZYL

58

IF YOU do not insure the contents of your house when you insure your car, you are going to find it increasingly difficult to get motor vehicle coverage.

Over 38% of short-term insurance companies and a large number of brokerage firms are now turning away "unsupported" motor business, Cape-based information sustems company, Compuquote, claims.

Compuquote MD David Hersch said that due to the extremely bad underwriting experience of companies in their motor accounts last year — largely due to crime — a fair number of leading insurers were refusing applications for motor-vehicles unless supported by householder's cover placed at the same company.

SA Insurance Brokers Association spokesman Ronald Gordon said that brokers were reluctant to place pure motor business because of the high incidence of theft which had pushed up their handling claims costs.

While placing "selective" business could seem to be in conflict with representing the man-on-the-street's best interests, he said the broker should be able to turn away business "which he knows will eventually cost him".

He said in the past personal motor insurance was never regarded as self-standing. This had come about through computerisation simplifying claims handling.

By refusing unsupported motor business, insurance companies could also be seen to be practising anti-consumerism and price fixing. A broker explained that a new policyholder could be forced eventually into placing all his insurance needs with one insurance company as the only way of getting his vehicle insured.

He said many of the companies still prepared to underwrite pure motor business were also loading the premium rates on their policies by up to 30%.

Most of the insurance companies reported to be turning away unsupported motor business said that "this was not a company policy decision".

They said underwriting decisions or accepting a particular risk was decided on branch level.

Problem

Commercial Union's underwriting manager Derek Poole said that turning away only motor business was not a "hard and fast rule" at his company.

SA Eagle Insurance's GM operations Jim McIntosh said that, although the decision to accept unsupported motor business was decided on at branch level, monthly premium business on unsupported motor was generally regarded as being a high risk area. As a result, applications of this nature were usually rejected. However, annual placed business on the motor account was normally accepted without a problem.

He noted that a large portion of SA Eagle's motor business was generated through brokers who handled the administrative and claim handling aspects of the policies. Brokers therefore had been cautious in placing unsupported motor business.

Newcomer Aflife performs well

58

GILLIAN HAYNE

AFRICAN Life (Aflife), the life assurance subsidiary of Southern Life which was listed on the JSE last November, has turned in a solid performance for the year to end-March with recurring premium income up 33% to R65,5m.

Investment income after tax also rose by a third to R15m, while total assets registered an 11% increase to R209,3m.

Aflife MD Bill Jack said it was a successful year in all aspects of activity, with every forecast in last year's prospectus achieved or bettered.

The company's marketing and administration expenses were contained at R15,1m, only 13% up despite the high lapse rate inherent in low-income business. Jack has been reported as saying Aflife managed to maintain low administration costs through the use of a system which processed volume cheaply.

Aflife's share offer was 45% oversubscribed at its listing last November, when it became one of the few companies on the JSE with a majority of black shareholders. B/Day 30/4/91.

Earnings a share rose 24% to 15,3c and the total dividend for the year was 9,8c.

A bonus share offer of three ordinary shares for every 100 shares held as at May 17 1991 has been offered to all shareholders holding more than 100 shares.

For those who do not qualify for the bonus offer or do not take advantage of it, a dividend of 5,8c a share has been declared.

BoE results show strong growth in all areas — MD

58 B/Day 30/4/91

LESLEY LAMBERT

CAPE TOWN — The Board of Executors has continued on its strong growth track, reporting 44% growth in attributable earnings to R5,28m for the six months to the end of March.

The results, which do not yet include any of the benefits of BoE's link-up with Anglovaal which was completed in March, reflect sound growth in all areas of business, MD Bill McAdam said yesterday.

Senior Finance GM James McGregor reported particularly good performances from the financial services group's money market activities and indicated that total assets under management grew by 11% to R3,2bn.

Earnings per share on a fully converted basis grew by 38% to 39,6% and an interim dividend of 13c (10c) was declared.

At the operating level, income before tax and loan stock interest and after a transfer to internal reserves, rose by 87% to R6,4m. But, a higher tax bill resulted in 67% growth in taxed earnings of R3,3m.

Equity accounted earnings, incorporating the results of Fidelity Bank, Storeco, Specialty Stores and Really Noble Investments, rose by 16%, resulting in a 44% increase in attributable earnings.

During the period under review, BoE announced the formation of its own merchant bank, the BoE Merchant Bank, which has been capitalised from its own resources at R50m. This move separates corporate finance activities and banking from the more traditional asset management activities and follows Anglovaal's acquisition of a 35% interest in the financial services group.

McAdam said the strong interim performance was expected to contribute to satisfactory earnings growth for the full year.

Metropolitan to build high-rise in Cape Town

58

LESLEY LAMBERT

CAPE TOWN — Metropolitan Life is to invest R75m in a high-rise office block on Cape Town's foreshore — the second largest property investment in the city over the past year.

The Cape-based life assurer's decision to go ahead with the 27-storey office tower follows a recent R100m investment by Old Mutual in a CBD office block. B|Day 30/4/91

Faith

Both developments represent a strong show of faith in Cape Town's property market, in spite of poor economic conditions and a proliferation of new commercial buildings due on stream between now and 1993.

Metropolitan Life's office tower will provide 14 376m² of normal office accommodation, 2 767m² of executive suites and 876m² of retail space.

The complex offers 227 parking bays as well as public parking in the vicinity.

With the Cape Town City Council's approval, the 93m building will exceed the permissible height by 34m and will be one of the tallest buildings in Cape Town.

Construction on the site of the old power station is expected to start towards the end of May and should be completed by April 1993.

"We expect the economy to have moved back into a growth phase by the time the building comes onto the market," Metropolitan Life property investments GM Johan van Rensburg said yesterday.

He said the developers hoped to pitch rentals at about R35 per square metre. No tenants had yet been signed up.

The R75m investment will bring Metropolitan Life's total commitment to the Cape Town property market to about R350m.

Portfolio

Other developments in the life assurer's national property portfolio include the R70m Parc du Cap office block in Bellville, a R10m office park in Green Acres, Port Elizabeth, mini factories in Strijdom Park in Randburg and a R9m office block in Maritzburg.

Shake-up in money market 'not onerous'

BDay 30/4/91.

ANDREW GILL and
ROBERT GENTLE

58

THE activities being outlawed in the money market should not be seen as a move to kill this market but rather in the light of the impending formalisation of the commercial paper market.

A spokesman for the Registrar of Deposit-Taking Institutions' Office said yesterday the activities under scrutiny could involve as much as R10bn and would end banks' involvement as agents in funding activities between non-banks. This could now be done only when a bank acted as a principal.

Because the new 20% liquid asset requirement became applicable only once the paper was in the last 31 days to maturity, the requirement would not be as onerous as some market participants claimed. It was at that stage that repurchase agreements came into play and banks could buy back and avoid the requirements, the spokesman said.

"They complain about us doing this and call it a lot of nonsense, but all we are doing is implementing the conditions of the Act."

The action now being taken no longer allowed for the outright sale of acknowledgment of debt, in contrast to the earlier practice of selling such instruments under repurchase agreements during 1989 and 1990.

The question was why the institutions concerned did not continue doing buybacks through repurchases or sell negotiable certificates of deposits (NCDs), he said. "They don't because of the prudential requirements now applicable to repurchase agreements."

One treasurer said the move was merely one to implement the stated intention of the Act, that of levelling the playing fields.

Others have, however, taken a different view and the resultant confusion has seen trade on the spot market tumble and that on the futures market soar.

Dramatically increased trade in short-term interest rate futures on the SA Futures Exchange (Safex) last week saw daily exchange turnover breach the R200m mark. This surge was reflected in trade in the three-month liquid Bankers' Acceptance (BA) contract and was the result of uncertainty over successive circulars released by the Registrar on money market policy.

Safex statistics show these contracts now account for about 60% by value of all Safex business, snatching first place from the traditionally strong share index futures.

A market source said: "Some of the fringe banks have survived on off-balance sheet funding while some have reflected their activities on balance sheet. Now it all has to be on balance sheet"

The government spokesman said banks could sell paper to non-deposit-takers as long as the transactions were reflected on balance sheet.

This was something that would come under scrutiny in the commercial paper market where corporations would be able to fund themselves through non-deposit-takers if they complied with certain guidelines, which still had to be finalised in the near future.

The move's main thrust was not one of ensuring liquidity but rather stopping banks taking part in the market outside the ambit of the Act.

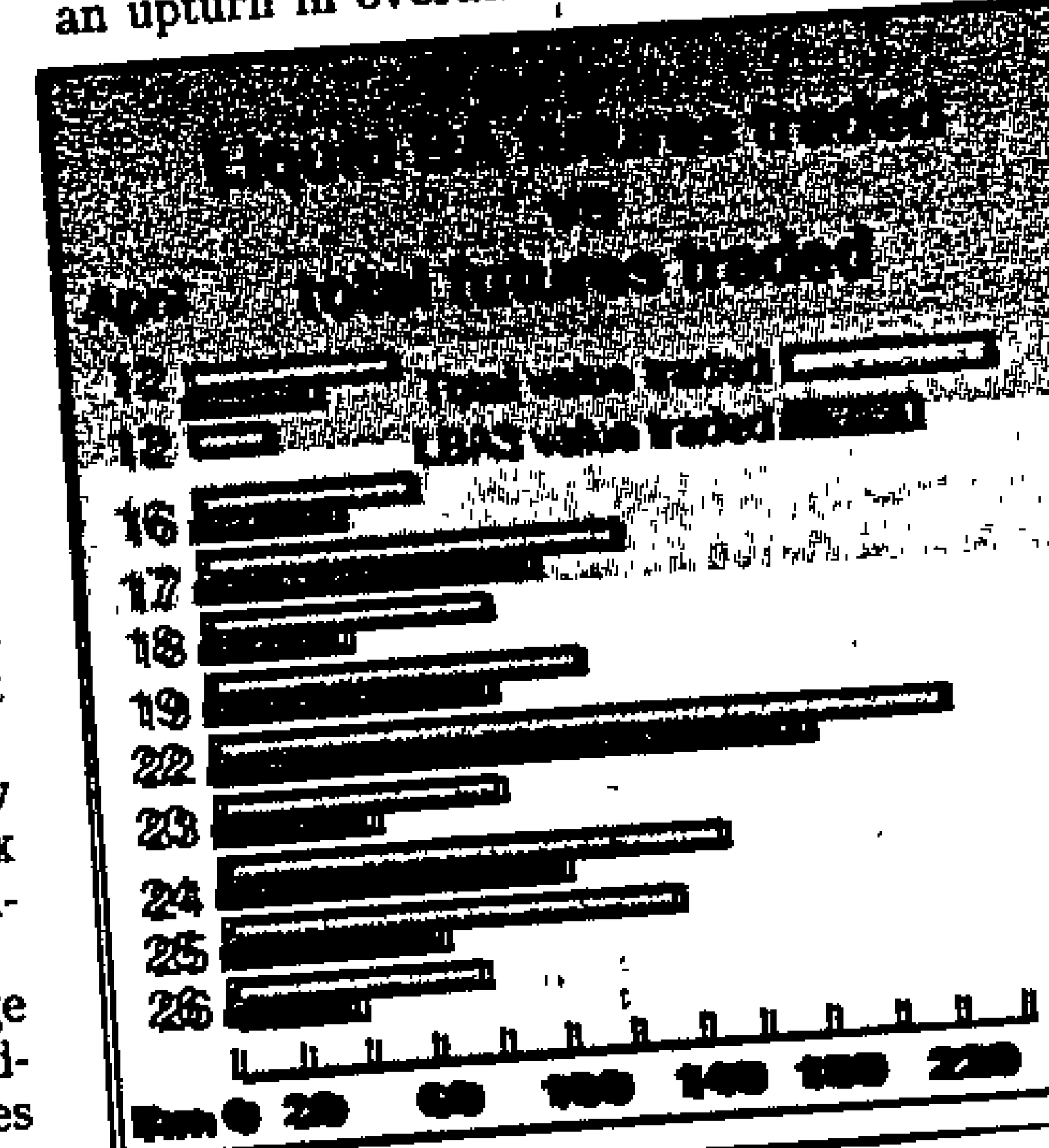
A senior treasurer said the market had not been killed; it would just be a bit more expensive for the corporate borrower. Others were less optimistic.

It would appear that the futures market expects a fall in rates because all the liquid BA futures contracts are trading from 9 to 150 basis points below the spot BA rate.

Safex CE Stuart Rees said that last Thursday's more-than-3 000 contracts traded were more than double the breakeven level of about 1 400 contracts a day.

This new breakeven level was the result of severe rationalisation measures and readjusted projections.

Rees was cautiously optimistic the increased volumes would prove permanent, which would mean welcome revenue gains for the newly streamlined exchange. He hinted that soon-to-be-released statistics for April would indicate an upturn in overall trade.



Graphic: LEE EMERTON Source: SAFEX

Nedcor income trounces inflation

THE financial services group Nedcor pushed net income up 18% to R167m (R141m) for the six months to March — results which banking analysts described as "in line with market expectations".

This translated into earnings a share of 90c (76c) with an interim dividend 2c or 12% up at 19c (17c) a share.

Nedcor CE Chris Liebenberg said continued earnings growth would depend on maintaining volumes in difficult economic times.

Liebenberg said with a capital adequacy profile (crudely total assets to shareholder's funds) of 7% there was room to grow the asset portfolio — the new Deposit Taking Institutions act considers 4,5% a prudent level.

"The strategy of the group will be to build quality assets at a faster pace — this is backed by the 20% growth in assets and 27% in advances compared with the corresponding previous six months."

He said solid margins while limiting risk would be incorporated into the asset-selection process. He said while credit instalments boasted the highest returns the risk exposure was far greater than other assets of a bank.

However Nedfin's profits — the instalment arm of Nedcor — were 73% higher at R14m (R8m) at the interim phase.

Liebenberg added that the recent drop in interest rates would help alleviate the bad debt position. The group brought its provision for bad and doubtful debts to R84m from R91m in the previous period.

But banking analyst Alan McConnochie said the UAL over-exposure (some R15m) in the finrand market had been provided for (in the first six months) last year, making a decline in the current period a natural outcome.

He added that a lower tax charge had also enhanced performance.

Liebenberg said expenses which had grown beyond expectations to March (up 24%) would experience a lower increase for the full year to September.

"So while margins are expected to come under pressure this should be offset by contained expenses."

Margins remained fairly constant and non-interest (fee) income saw satisfactory growth.

Interest received increased to R2,9bn (R2,4bn). Expenses grew to R713m (R601m) impacting on net operating income which increased by 12% to R373m (R344m).

Nedcor's subsidiaries performed well — with the exception of Syfrets. Nedbank recorded a net income increase of 15% to R80m and the Perm a 14% rise to R39m. Finansbank and its subsidiary, Cape of Good Hope Bank, posted a 20% growth in consolidated net income to R8m. But Syfrets saw net income drop to R9m against the previous R10m. — Business Staff and Own Correspondent

Bob Tucker quits plum Perm post

CMT Trib 30/4/91 (58)

NEDCOR surprised the banking community yesterday by announcing the departure of Perm MD Bob Tucker from June — and a restructured programme for its commercial and HP banking services.

Chairman Johann Maree said the restructuring would prevent overlapping and unnecessary (in-house) competition.

"Bob Tucker has decided he would like to devote his time to the social upliftment process and so will relinquish his position as Perm MD from June 30. He has agreed to work closely with Nedcor and will remain a non-executive director," said Maree.

He said Tucker had demonstrated his commitment to working for a peaceful and prosperous SA and was set to play a greater (extraneous) role in this regard.

Nedcor CE Chris Liebenberg pointed out that in his (Tucker's) eight years as MD — the Perm had grown from an asset base of R4bn to R11bn and from an annual pre-tax profit of R4m to R124m.

"During this period the Perm granted more than 236 000 home loans and made a major contribution to black home ownership in this country with 62 500 loans to the black community."

The new Nedcor banking division will incorporate Nedbank, The Perm, Nedfin and Pyraned — with Nedfin taking in Nefic, Nedbank Commercial Services, Secured Investments, fleet car operations and fleet rental services.

Richard Laubscher becomes MD of the banking division and retains his title as CE of Nedbank.

Peter Hibbert is to take over from Tucker at the helm of the Perm from June, while Chris Beatty leaves the Board of Executors to become MD of Nedfin. Other new appointments from outside the group are Brian Wegerle, of Middelburg Steel & Alloys, as GM human resources and Bruce Vermeulen, formerly of the Allied.

A statement by the Perm said yesterday it had been Tucker's suggestion that the Perm should be pulled closer to the other banking units of the group — notably Nedbank. — Business Staff, Own Correspondent and Sapa

BOB TUCKER . . . focusing on social upliftment.

SA Eagle battling with rising claims

Star 1/5/91

Diagonal Street
(58)
LYNNE PEACH

An increase in insurance premiums and extra attention given to customer service is expected to put the underwriting account of short-term insurer SA Eagle back into profit.

In the annual report, chairman Fred Haslett describes 1990 as a year of recession, with a low gold price, high inflation and escalating crime rate.

He says the present circumstances made it inevitable that the cost of providing cover must rise substantially.

The introduction of Value Added Tax (VAT) in October will further add to insurance costs.

Mr Haslett says the nature of the insurance business will not only make the collection of VAT costly, but also very complicated.

SA Eagle conducts all classes of short-term insurance business in South Africa and neighbouring territories.

Botswana Eagle and Eagle Zimbabwe are wholly owned subsidiaries.

In the past year, marine and aviation business was profitable, while all other divisions were negatively affected by the economic climate and increased claims.

In the year to December, net premiums earned grew 18 percent from R487,1 million to R573,9 million.

However, largely due to a significant increase in net claims incurred, the group suffered an underwriting loss of R36,8 million.

In financial 1989, the underwriting profit was R20,6 million.

After including investment income, which was unchanged at R52,4 million, and deducting other expenses, pre-tax profit reached R11,1 million.

This is significantly lower than the previous year's R69,8 million.

An effective tax credit, however, pushed attributable profit to R24,0 million, which is roughly half of 1989's profit of R47,0 million.

Earnings per share dropped from 392,0c to 198,5c.

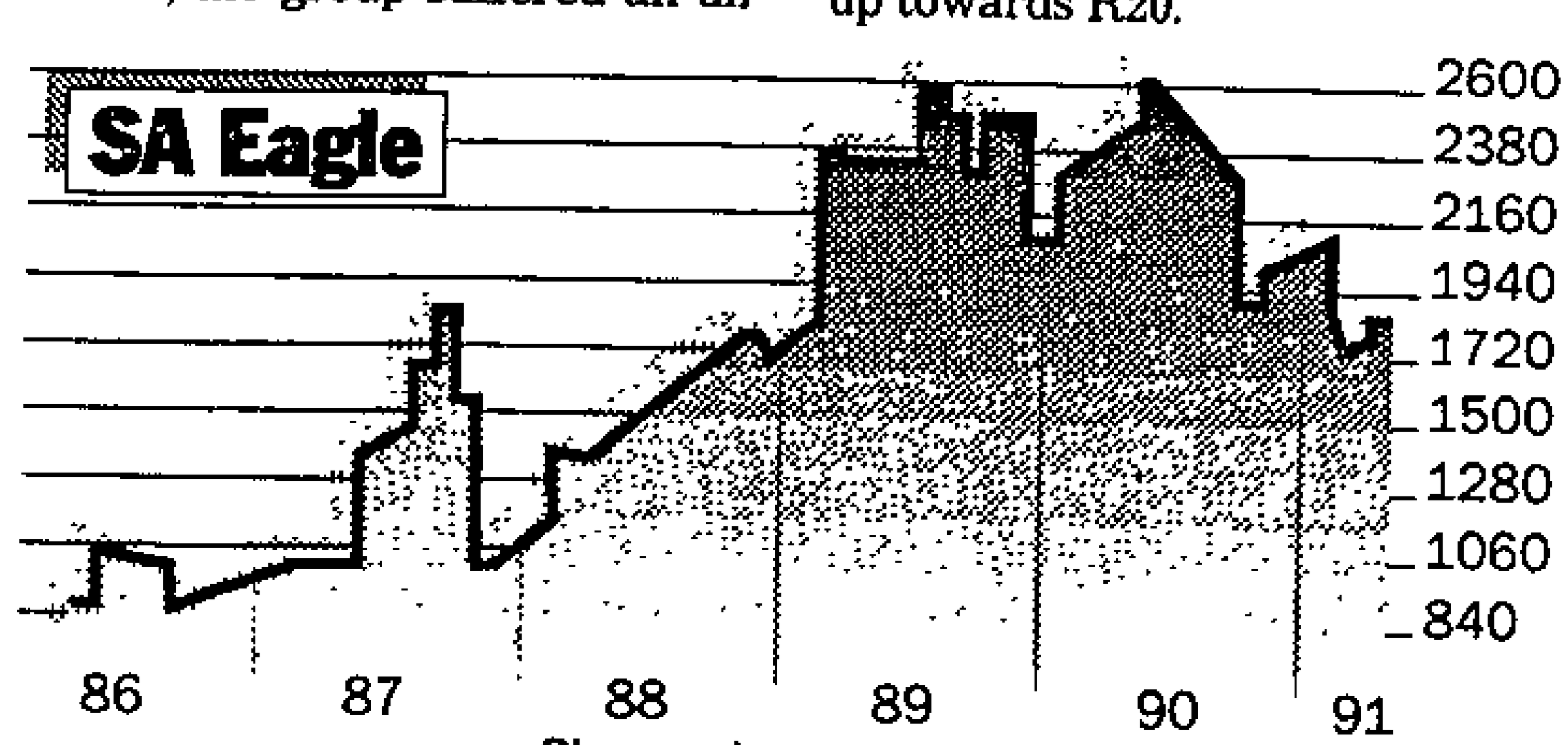
The dividend for the year fell less significantly from 190c a share to 150c.

SA Eagle, priced at R18,50, is trading on a P/E ratio of 9,3 and provides a dividend yield of 8,1 percent.

The group, with total assets of R950 million, is financially sound, but because of adverse external factors, buying of the share is not recommended at this time.

COMMENT: SA Eagle's share price touched R26,00 in the first half of 1990 before falling steadily to R18,50.

The share remains in a downtrend, but the outlook will improve if the price starts edging up towards R20.



Share price movement

ds SA share service

Effect of turnover tax on banks 'dramatic'

B10 Day 21/5/91

GRETA STEYN (58)

THE new turnover tax on interest would slice R131m off the combined profits of the Standard Bank group, First National and Nedcor, says a Davis Borkum Hare analysis of the banking sector.

As a percentage of their incomes for year-end 1990, this amounted to 8,4%, 7,6% and 7,9% respectively — described as a "dramatic effect" by analyst Graham Baillie. He says the banks will seek to offset this additional cost by increasing non-interest revenue.

"It is anticipated the cost of having a bank account will increase substantially in the year ahead," he predicts, pointing out that the introduction of VAT would add to the cost-raising effects of the turnover tax. Because financial services are exempt from VAT, banks pay VAT on their inputs but cannot charge tax on their outputs.

The major impact will be on the cost of operating their communication networks because VAT is levied on telecommunication services previously GST-exempt. The cost of administering the tax will also exert pressure.

Operating costs in the banking industry, with few exceptions, are increasing faster than inflation. Says Baillie: "Finance is a service industry, highly labour-intensive and not profiting by the same continuous gains in productivity as manufacturing industries. For this reason the banking industry is particularly susceptible to the ravages of inflation as labour prices tend to rise without the concomitant increase in productivity."

Heavy investment in computers and technology point towards non-interest revenue being measured in terms of breakeven analysis where the volume of transactions is all important. For this reason, economies of scale are sought by competing for increased market share.

Results of banks as solid as ever

(58) B Day 2/5/91.

ANDREW GILL

BANKS' solid showing at the interim stage has come at a time when many of the institutions had anticipated havoc with the introduction of the Deposit-Taking Intitutions Act, the formation of Absa and the strict monetary policy prevailing since October 1989.

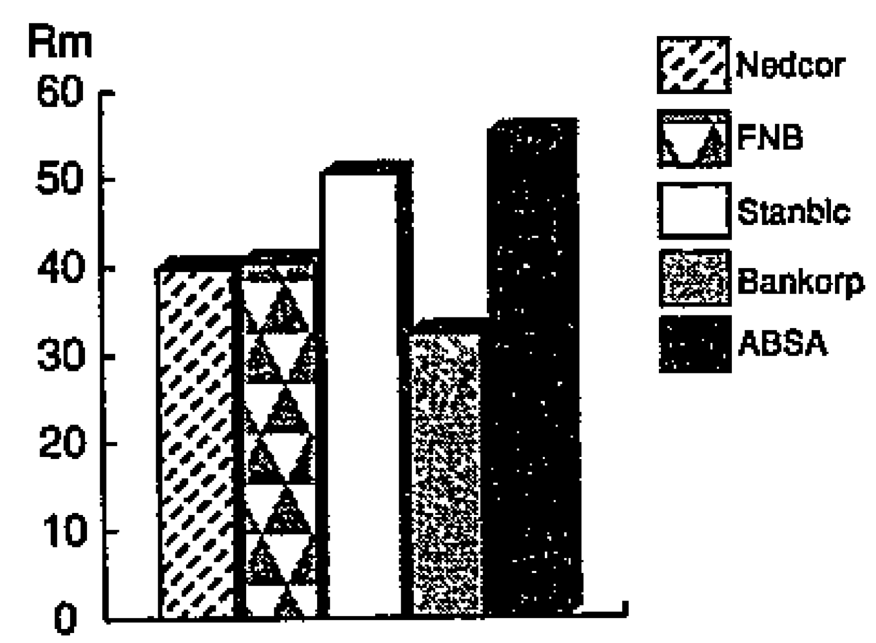
Defaulting borrowers were another factor worrying banks as they faced a crippling increase in bad debt provisions and a dangerous fall in margins.

At the interim stage, however, Nedcor, First National and Bankorp have proved that they are solid enough to withstand the various onslaughts.

Total assets have climbed steadily in spite of the current 4,5% capital requirement under the Act. First National's grew by 13% at the interim stage and Nedcor's by over 20%.

Nedcor CE Chris Liebenberg said the group could afford balance-sheet growth because of capital adequacy, currently 7,25% compared to the statutory 4,5%.

Total assets



Graphic: LEE EMERTON Source: NEDCOR

Most of the banks are in fairly comfortable capital positions despite the furore of the new Act and are set to take advantage of the lower statutory capital requirements in owning a home loan book.

Most have stated the intention to penetrate that market, as was seen in the bond war resulting from the one percentage point cut in Bank rate.

Bankorp returned to profit in the six months to December with aR54,8m profit from the year-end loss of R368,4m.

Although executive chairman Piet Liebenberg admits the bank is up to five years away from full recovery, he and analysts are certain that the operation will attain that goal, and "good long term buy" is an often used expression when referring to Bankorp.

First National produced what MD Barry Swart called "satisfactory results under current economic conditions" in boosting earnings 19,3% to R156m.

Assets grew by 13% to R33,5bn and reflected a capital-to-assets ratio well in excess of the required 4,5% at 7%.

Nedcor reported an 18% increase in earnings to R167m despite a 19% jump in operating expenses and a lesser rise in non-interest income.

At Nedcor's results briefing last week the group released comparative figures for the big five banks, which were evenly balanced but for Bankorp in most ratios.

Return on assets for instance, was at an estimated 0,9% for Absa, 0,89% for Nedcor, 0,82% for FNB, 0,88% for Stanbic and a low 0,3% for Bankorp.

Confident

Total assets stood at R39,8bn for Nedcor, R40,5bn for FNB, R50,4bn for Stanbic, R32,8bn for Bankorp and R55bn for Absa.

Davis Borkum Hare comments in an analysis of the major banks that those already invested in banking stocks can remain confident that their funds are well-placed to weather the present recession.

Banking sector is powering ahead

Star 29/5/91. (58)

By Ann Crotty

The banking sector has enjoyed a considerable rerating in recent months.

This may just be confirmation of the traditional view that it is this sector that tends to lead a stock exchange bull rally.

It could also just be the impact on the banking index of the hectic, somewhat speculative, trading in a number of the major counters in the sector — Stanbic, Allied, UBS, Saambou.

But recent results from the big banking players indicate that there is a more fundamental justification for a rerating of this sector than for the rerating that the overall industrial sector is currently enjoying.

In the past week, Nedcor reported an 18,4 percent hike in interim earnings for the period to end-March.

FNB turned in a 19 percent increase for the same period.

Comparison

These increases are well ahead of the performances being reported by industrial companies. In the industrial sector sustained earnings are increasingly being regarded as something of an achievement.

In a recent report on the banking sector, Davis Borkum Hare analyst Graham Bailie forecast earnings growth in financial 1991 of 20 percent for the major banks — with the exception of Bankorp. (Working from its recovery position, Bankorp is expected to achieve a massive improvement on the loss reported in financial '90).

It is presumably bullish expectations like these that are fuelling the current run on banking shares.

Given the expected pedestrian growth in the asset base, Mr Bailie is looking to operating efficiencies and quality of service to drive earnings growth in 1991.

"It is expected that greater contributions to earnings will come from non-interest revenue sources," he says.

Asset growth

Mr Bailie believes that while market share remains a significant measure of success in the banking sector, there is now general acceptance that business will be written only if it measures up to a predetermined profit contribution.

"There will be greater focus on existing customers to promote further utilisation of current and new products than chasing business for the sake of asset growth."

Releasing their interim results this week, Nedcor provided information on the various performances within the banking sector.

According to the Nedcor figures, Absa has shareholders' funds of R3 billion; Stanbic has R2,2 billion; Nedcor has R1,7 billion; FNB has R1,5 billion and Bankorp has R1,3 billion.

The return on equity figures are 21 percent for FNB; 20 percent for Nedcor and Stanbic; an estimated 16 percent for Absa and 10 percent for Bankorp.

The most recent expenses-to-income ratio figures are Nedcor with 65,7 percent; Stanbic with 68,2 percent; FNB with 69,5 percent and Absa with 71,8 percent.

Insurer in call for shift towards blacks

(58)

BDay 3/5/91

GILLIAN HAYNE

A CALL to encourage black participation in the life and pension industry before a future government took over was made at the annual convention of the Institute of Life and Pensions Advisers (Ilpa) in Durban yesterday.

Addressing delegates, Charter Life senior manager legal services Martin Sweet said if Ilpa did not take the initiative in this regard soon, compulsory affirmative action would be imposed later.

He said Ilpa should question whether its training and products were relevant to the needs of the future SA.

"If they are not there is a danger that we could become irrelevant".

Sweet said people bought life assurance on trust, a scenario which was even more prominent in the black market where insurance was a rather unknown quantity.

In such a market a man with a recognised qualification like Ilpa's would be a great advantage, he said.

The black market was the fastest growing sector both in population and potential spending power.

Estimates were that in the year 2000, blacks would constitute 84,1% of the economically active population and ten years later would hold 80% of the disposable income in SA.

Communication with this market could only be achieved through education and training, which companies would have to make a part of their business.

"They must train and develop their workers and give them a stake in their business. If business can do that then we will be in an era of a voluntary re-distribution of opportunities rather than the compulsory re-distribution of wealth," he said.

"Unsophisticated people will never buy life insurance. Ilpa fellows must integrate themselves into the broader communities and share their knowledge and abilities with others," Sweet added.

Allied breaks truce and cuts bond rate

(58)

B/Day 3/5/91.

GRETA STEYN

THE Allied has broken the truce prevailing in the bond war with an immediate 0,25 percentage point cut in its home loan rate for new borrowers to a basic 19,5% — beating Absa's major competitors.

Allied MD Kevin de Villiers said the move was an Allied initiative and the two other banks in the newly formed Absa group were not expected to announce rate cuts in the near future.

A First National Bank spokesman said yesterday it, too, offered 19,5% — to customers who had cheque accounts and two other services with the bank. Its basic rate for other customers was 19,75%, the rate prevailing at most institutions.

The Allied's rates for existing bond holders will be reduced by a similar margin from June.

A Standard Bank spokesman said he would not be surprised if other banks announced rate reductions by next month.

"The fundamentals in the market suggest rates have to drop again. It is not really a question of if we are going to drop rates, but of when and by how much," he said.

The Standard, with a mortgage book of more than R7bn, was in the same league as the Allied in the home-lending market and was beaten by the UBS and the Perm.

The Allied differentiates between different customers. Its blue chip customers qualify for 19%, with the highest rate now charged pegged at 20,25%.

De Villiers said the move had been motivated partly to deal with problems arising from differentiation in a highly competitive market. The move was an effort to "sweeten" the package and the Allied's statement yesterday urged clients to negotiate the new differential bond rates.

"Money market rates have been softening and our funding situation is comfortable enough to act now," he said.

He added that switching bonds between institutions was continuing and he expected Absa's competitors to react to its formation by competing more aggressively in the home loans market. About 65% of Absa's book consisted of home loans, while the other banks averaged about 15%.

Banks are encouraged to provide home loans by the favourable capital requirements in the new Deposit-Taking Institu-

☐ To Page 2

Allied

B/Day 3/5/91

(58)

☐ From Page 1

tions Act. Banks are allowed to keep half the capital a normal loan requires against a home loan — a concession that is in line with international banking trends.

Money market dealers said yesterday the improved liquidity situation was putting downward pressure on rates. According to FNB's latest survey among economists, the Reserve Bank will cut Bank rate by another 1,5 to two percentage points this year. However, the Bank seems in no hurry to act, as signalled by its mopping up of liquidity in the money market.

Yesterday it counteracted the inflow of cash by selling R500m of special Treasury bills to the market.

CAPE TIMES 3/5/91 (58)

'Inflation enemy number one'

By ARI JACOBSON

LOOKING at the banking industry — "if one accepts that asset growth in the balance sheet of lending institutions is fundamental to earnings growth, then the year ahead appears to offer little in the way of good news."

So says Davis, Borkum Hare's banking analyst Graham Baillie, adding "with inflation remaining enemy number one — there will be continued robust intervention by the Reserve bank in controlling credit expansion".

He says the end result is the level of economic activity in 1991 will decline further, while the level of non-performing assets in the balance sheets of banks will increase.

"Banks will be better placed nursing some of their troubled customers through the difficult times than competing for marginal business."

On the positive side, he says, with the bank rate coming off to 17% in a relatively liquid market has allowed banks to increase their interest turn to about 4%.

"Operating efficiency and quality of service will drive earnings growth in 1991 and it is expected that greater contributions to earnings will come from fee income sources."

He adds that those institutions with already revamped information systems will be better placed to provide levels of service akin to customers' expectations.

"While market share remains a significant measure of success in the banking sector — business will only be written if it measures up to a pre-determined profit contribution."

Looking at individual banks Baillie considers Standard Bank at R45 to be fully priced. (Investors are advised to hold and accumulate on weakness.)

First National Bank (FNB) has strong upside potential in spite of the strong run to R38.

"With a projected forward dividend yield of 4,7% investors should continue to accumulate the counter."

Amalgamated Banks of SA (ABSA), the recently formed banking giant, should on the back of operating efficiencies make these shares an attractive proposition.

Baillie said this investment should be viewed as long term.

Bankorp has some way to go to restore operating margins to acceptable levels.

"As a result it is anticipated that the share will underperform relative to the rest of the banking sector."

NEDCOR FM 3|5|91 (58)

HOLDING THE PACE

Nedcor is steadily expanding its operating base, while still holding profit ratios at favourable levels. This week the group also announced a further restructuring of its businesses (see *Economy*).

Most of the major banking groups saw interest margins under pressure during much of last year, but the deterioration now appears to have ended. In the six months to end-March, Nedcor kept its margins fairly constant, and the net interest income was up by 18%.

A favourable trend in control of expenses and bad debt provisions helped to ensure that the pace was maintained at bottom line. The published accounts show non-interest expenses up by just less than 19%, which is somewhat below industry averages, while the provision for bad and doubtful debts dropped by R7m, or 8%, to R84m.

But CE Chris Liebenberg contends that these figures are not fully comparable. When adjusted for certain factors which affect the previous year's comparative numbers — such as UAL's large loss last year and the impact of capital spending — the effects are not quite as favourable.

On the adjusted accounts, non-interest expenses rose by 24%. Though this was much higher than management would have liked, Liebenberg reckons it remains in line with the industry. Nedbank made the biggest impact on the expenses figure. Reasons cited include: depreciation coming through on capital expenditure; fraud, particularly on the credit card operation; marketing expenses from which benefits have not yet been felt; rapid growth of the home loan book; and expenditure on a new corporate image.

NEDCOR'S TURN

Six months to	Mar 31 '90	Sep 30 '90	Mar 31 '91
Net interest inc (Rm)	553	582	653
Other income (Rm)	392	413	433
Expenses (Rm)	601	675	713
Net income (Rm) ...	141	146	167
Earnings (c)	76	78	90
Dividends (c)..........	17	34	19

When the UAL loss is excluded from the previous provision for bad and doubtful debts, then the figure has increased by 15% to R84m. Liebenberg says that in some areas the bad debt experience has not been too severe, but more recently the incidence has been showing signs of increasing.

A rising level of bad debts is now being seen in the home loan business, where defaults were considered highly unusual about five years ago. "A definite change is taking place in the home loan market," says Liebenberg. "All the former building societies are showing rising levels of default. But our figures compare favourably with the others."

FM 3|5|91 (58)

If this trend continues, it could take a toll on the banking groups which have recently been chasing home loan business and building up large books. Nedcor's management stresses that the business is still profitable, and has other benefits such as low administrative costs. In any event, Liebenberg is expecting a rising trend in the total bad and doubtful debt provision.

Nedbank and Perm are now providing fully for tax, and the charge rose from R26m to R92m. However, the group's companies are in a deferred tax position, and cash flow has not changed significantly.

Nedperm Bank — comprising Nedbank and Perm — remains the major profit contributor. Nedbank's contribution rose by 15% to R80m, and Perm's by 14% to R39m. UAL, with its problems behind it, was up by 52% at R17m.

Nedcor's total assets increased during the half-year by 20%, but Liebenberg points out that volumes are largely economy-driven, and thus could slow in the second half. Margins are looking "reasonably good" but could come under renewed pressure. The board hopes to offset this by emphasising expense and risk control, and expects the level of income earned in the first half will be maintained. At 1 325c, the share yields 4% on dividend, and looks under-priced relative to SBIC and First National. *Andrew McNulty*

FM 3/5/91 (58)

FM 3/5/91 (58)

FIRST NATIONAL BANK

FM 3/5/91

COSTS HELD

(58)

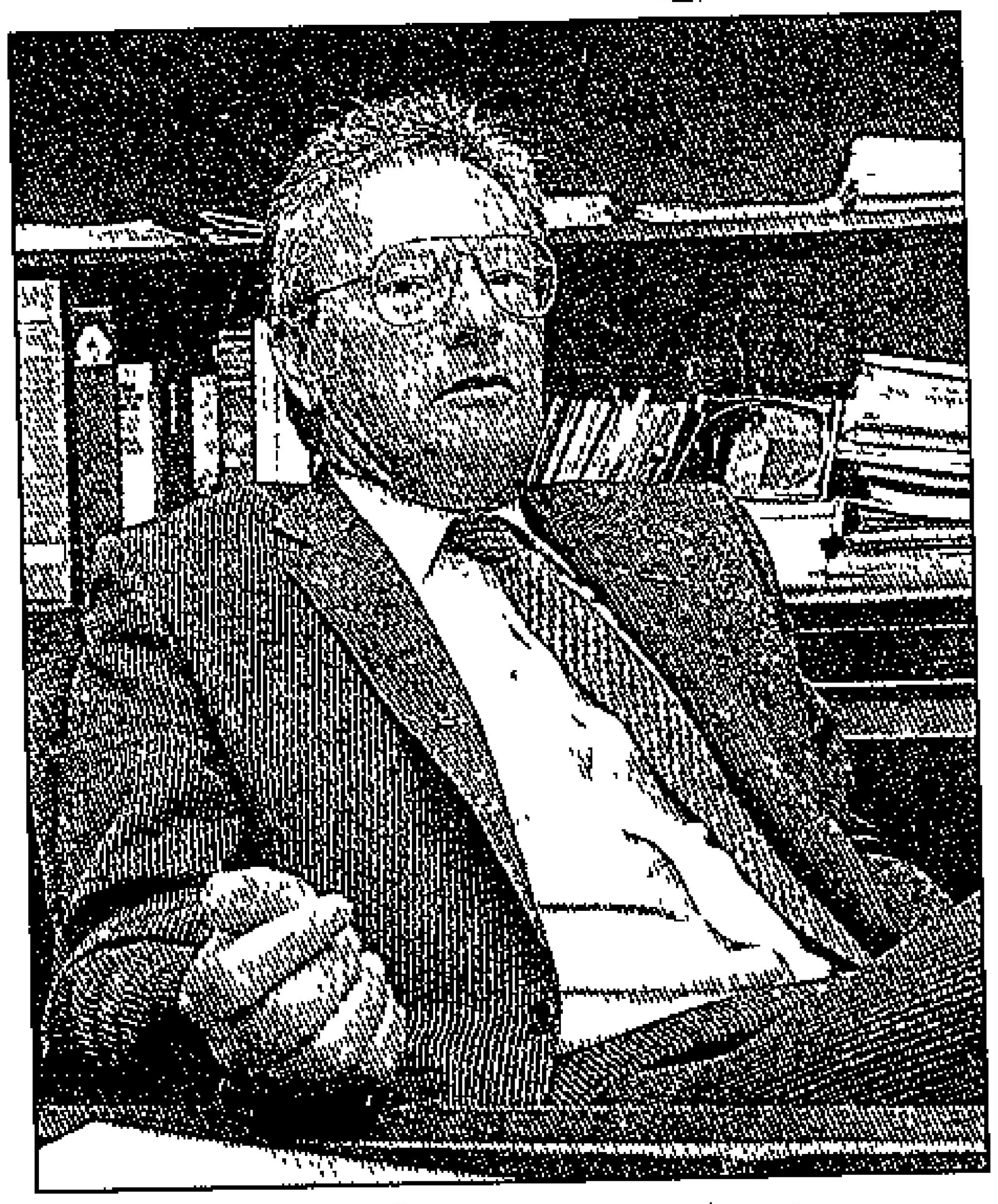
Over the past two financial years, First National Bank's balance sheet has been virtually ex-growth, with total assets rising by only 7,3% between 1988 and 1990.

With the asset base kept under such a tight rein, it was not altogether surprising that profitability ratios have risen markedly. When latest figures for return on equity and return on assets are compared with those of competitors, the group now appears to have leapt into the upper rankings.

But, while this strategy might be effective enough during a drive to improve the quality of the business on the books, it obviously cannot be maintained indefinitely. Some investors think it has already gone on too long

In the six months to end-March asset growth was resumed, though still at a somewhat sedate pace, with total assets rising by 12,8%, mainly owing to the growth in advances. FNB was, however, able to take full advantage of this growth by showing improvements in its interest margin and operating expenses, and a reduction in the charge for bad and doubtful debts — with this reduction in sharp contrast with the general trend in the industry and with economic conditions.

MD Barry Swart says the group took a view about 18 months ago that the Reserve Bank would keep interest rates up for longer than most people then thought. FNB structured its deposit book accordingly, and this



FNB's Swart ... *systems beginning to work*

led to the improved interest margin.

This resulted in a 9,9% advance in net interest income. But what really boosted the bottom line was the R15m drop in the charge for bad and doubtful debts, which fell to R131,8m.

Considering the economic conditions FNB has been facing recently, there may be some scepticism in the market about this reduced charge for bad and doubtful debts. General provisions are formula-related, and thus are bound to increase as the recession worsens, but a large banking group has considerably more flexibility when it comes to specific provisions.

However, Swart contends the latest figure must be seen against the previous year's particularly high charge of R294m, which he describes as a "crazy figure." Notably, the 1990 year's charge, made when Swart had been heading the group for about 18 months, was 62% up on the 1989 figure of R182m.

He contends that the lower charge for the 1991 interim shows changes to FNB's systems "are beginning to work." All the group's advances are now categorised, and Swart reckons that action can be taken more rapidly than in the past. He says that, while this has actually led to a more conservative approach to provisions, a further reduction is expected for the second half. Swart estimates that the total charge for bad and doubtful debts in 1991 will be about R230m, which would be R60m lower than last year.

One figure that is clearly encouraging is the rise of only 14,5% in other operating expenditure. This is higher than the 7,5% increase during the no-growth period of the 1990 year, but compares favourably with industry trends. In the 12 months to end-December, Standard Bank Investment Corp's other operating expenses rose by 26%; in the six months to end-March Nedcor's expenses were up by 18,6%.

Swart is targeting growth in total assets of about 15% for the full year. This will include strong growth in the home loan book — which could total R4,5bn by year-end — and by Wesbank.

With the asset base beginning to grow at a pace closer to that of other banks, the market should gain a clearer view of what FNB can achieve when taking a more competitive stance. Investors, meanwhile, are taking a favourable view of the share which, at 4 075c, yields 3,9% on dividend. This is in line with Nedcor, but is above SBIC's yield which has been pushed to 2,8%.

Andrew McNulty

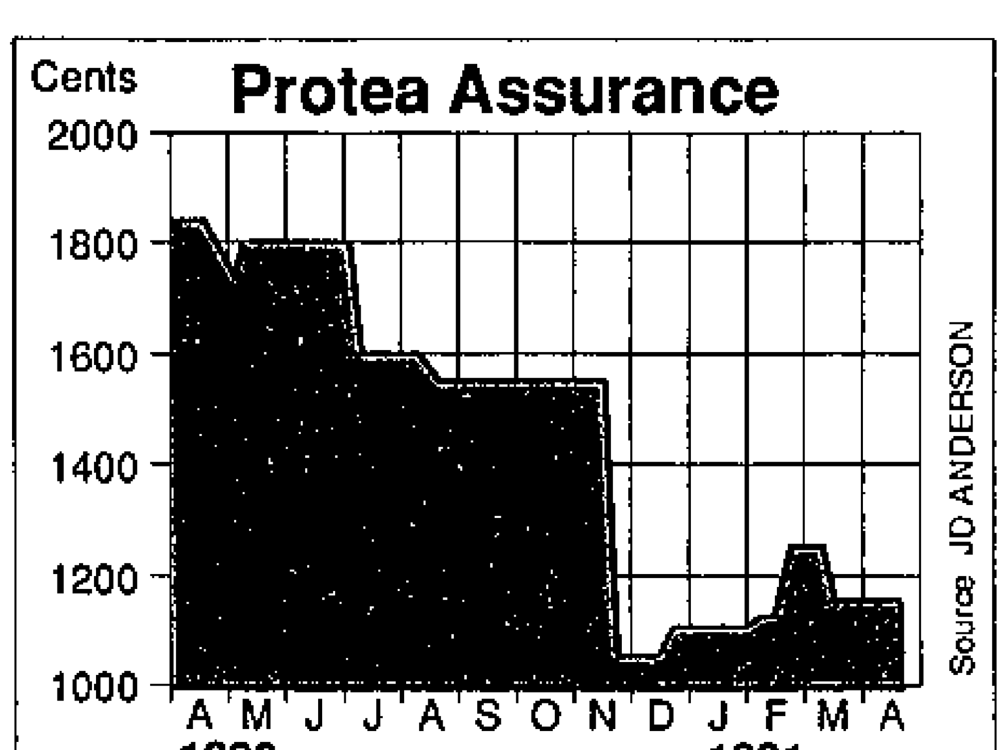
GROWING AGAIN

Six months to	Mar 31 '90	Sep 30 '90	Mar 31 '91
Net interest inc (Rm)	660	657	726
Other operating income (Rm)	450	500	515
Other operating expenditure (Rm) .	755	763	862
Net income (Rm) ...	131	199	156
Earnings (c)	180	274	214
Dividend (c)			
— ordinary	40	110	45
— pref ord	78,75	78,75	78,75

PROSURE Fm 3/5/91

GAINING SHARE (58)

Outgoing chairman Cedric Walton says he is confident that Prosure will be able to cut back its underwriting losses this year. Realistically, however, this is not a particularly demanding target as the group's performance during 1990 was by far the worst of the



Fm 3/5/91 (58)

Activities: *Composite Insurance Company.*
Control: *Sun Alliance Plc (79%).*
Chairman: *C L Walton; MD: A R Crank.*
Capital structure: *7,9m ords. Market capitalisation: R89m.*
Share market: *Price: 1 125c. Yields: 4,7% on dividend. 12-month high, 1 800c; low, 1 050c. Trading volume last quarter, 12 000 shares.*

Year to Dec	'87	'88	'89	'90
Total assets (Rm)	323,9	396,5	543,5	583,4
Solvency ratio (%)	91,2	110,7	140,5	98,5
Underwriting profit (Rm)	2,6	2,6	(0,8)	(38,4)
Inv income (Rm) ...	12,8	14,3	19,6	21,2
Pretax profit (Rm)	15,9	17,2	18,3	(18,7)
Earnings (c)	140	149	172	(186)
Dividends (c)	36	46	53	53
Net worth (c)	1 401	1 791	2 692	2 492

three short-term insurers reviewed by the *FM* recently, and the only one to have scored an outright loss.

Like other insurers, Prosure has been hit hard by soaring crime. In addition, the timing of what appears to have been a decision to increase market share has turned out to be singularly ill-chosen.

That the group increased market share last year is reflected in the fact that net short-term premiums jumped 32%, almost double the rate of increase recorded by SA Eagle (*Companies* April 5) and Cusaf (*Companies* April 19). Justification for such a drive can be found in the group's solvency ratio (the ratio of shareholders' funds to net premiums). In recent years it has been substantially above the industry norm, indicating that Prosure had the capital base to write a substantially higher volume of business than it was doing.

To quantify this, the group's average solvency margin over the past four years was 110% compared with Cusaf's 74,5% and SA Eagle's 72,4%. This indicates Prosure could have been writing up to 50% more business — while still remaining within industry norms — in terms of its level of business in relation to net worth.

Two other aspects also point to an underutilisation of the capital base: Prosure's underwriting results have traditionally been minimal in the context of overall group earnings; and return on equity has, equally traditionally, been substandard even in good underwriting years.

As regards the first, it can be noted that Prosure's investment income over the past four years has amounted to 208% of pre-tax profit, against comparable ratios of 77% for Cusaf and 91% for SA Eagle. As regards ROE, perhaps the most telling comparison is that Cusaf's depressed 1990 return of 11,4% was 1,4% points higher than Prosure's peak. All in all, one could argue there is ample justification to go for a bigger market share, with the ultimate aim of improving overall group profitability.

There are, however, only two ways to increase market share. You can either buy it through competitive premium ratings or take on risks nobody else wants. Neither of these options is likely to bolster results in the short-

FM 3/5/91 (58)

Prosure's Walton . . *smaller underwriting loss targeted*

term but there could be long-term advantages if the group is able to keep the business so acquired at more realistic premiums when policies are renewed.

If this is what Prosure is aiming to do — and if it succeeds — last year's substantial underwriting loss could be viewed as a sort of acquisition cost in respect of new business brought on to the books.

Whatever the outcome, the market has not been overly impressed by the latest results. The share price over the past year has fallen 38%.

However, as noted when the *FM* reviewed the 1989 annual report, Prosure then had one of the highest share ratings in the sector, so all the fall has really done is to narrow the gap between it and the other short-term insurers.

The current yield of 4,7% at 1 125c now compares with the sector average of 5,6%, indicating Prosure is still rated as better than average. In comparison, Cusaf, which limited its 1990 earnings fall to only 14%, is on a 4,3% yield, while SA Eagle, Guardian and Santam are all between 8% and 11%.

Brian Thompson

R22,3m claim against bank

CAPE TIMES 3/5/91 (58)

Staff Reporter

THE former managing director of Cape Share CC this week instituted a claim of R22,3 million against Boland Bank for lost earnings because of alleged "misappropriation or mishandling" of finance by the bank.

In papers before the Supreme Court, Pretoria, on Tuesday, Mr Frank Pennington and his wife Gail of Somerset West claim that Boland Bank breached certain agreements between it and Karmel Trust regarding the financing of the Sudwala Timeshare Project.

As a result of these breaches, they claim, Karmel Trust — of which Cape Share CC formed a part — suffered financial losses and experienced cash flow problems resulting in their provisional liquidation last month.

In respect of Cape Share, the livelihoods of about 500 people were affected countrywide when the timeshare marketing company ceased operating on April 5. Mr Pennington said none of the employees, whom he had hoped to pay by April 12, had yet been paid.

In issuing a summons, Mr Pennington said that among other conditions, Boland Bank undertook to provide finance and process the contracts of purchasers of timeshare units for the Transvaal-based Sudwala timeshare project.

In two of four documented breaches of contract, he alleges that on or about June 30, 1990, an amount of R8,1m was due to Karmel Trust from Boland Bank. The bank provided only R6,3m of the amount, he claimed.

He further alleged that on the same day R4,2m was to have been placed in the same account for other timeshare expenses. He alleges that on August 31, 1990, an amount of R2,8m was withdrawn from the account leaving R1,4m which was not accounted for by the bank.

He said Boland Bank failed to account for its administration of the funds under its control in terms of an agreement between it and the trust.

Mr Pennington said that as a result of the damages suffered by the trust, of which he and his wife were the sole beneficiaries, a claim of R22,3 million was being brought against the bank.

DTI INVESTIGATION FM 3/5/91 (58)

MEXICAN CONNECTION

A bankers' draft for US$500 000, dated January 5 and presented in March to Bancomer (Sociedad Nacional de Credito), one of the largest commercial banks in Mexico City, has sparked an inquiry by the Deposit-Taking Institutions (DTI) Office. It was payable by Eastech, which is not registered as a bank in SA but which DTI says has issued documents for value, bearing SA addresses.

No money was paid out against the draft, which was sent to the Mexican bank's London office, which in turn referred it to the DTI office and the central fraud liaison office of the British Bankers' Association.

Gareth Cade of Bancomer's London office says certain features of the draft attracted suspicion, including the unusual colour of ink used for the signatures and crest. When Bancomer queried the draft's validity, a certificate of deposit for $5m was produced, "apparently in an attempt to give credence to the authenticity of the draft," says Cade.

The certificate was issued to Mariana Zermeno de Cheney by Eastech International Bank of Djibouti and bore the inscription: "This certificate shall be governed by the law of the Almighty Soverign (sic) God," and a thumbnail sketch of Pope John Paul 2.

Among documents which DTI office knows have been issued by Eastech are:

☐ Transferable certificates of deposit bearing SA addresses which have been given out for value;

☐ A letter which advises that "a series of certificates of deposit issued" has received a new redemption point: "Eastech International Bank — (SA), Executive Suite B, 262 Warren Avenue, Littleton (sic) Manor, Verwoerdburg; and

☐ A letter advising on the "working hours" of the "bank."

The DTI office says the Registrar was approached on January 9 by Adrian Barend Stander and Rudolf van Rooyen "seeking written consent . . . to lawfully establish a representative office on behalf of Eastech International Bank. As a result of a failure by (them) to supply sufficient information with regard to the international status and credibility of (Eastech), the Registrar refused such consent." The Registrar told representatives this in a letter dated April 5.

Stander and Van Rooyen are also directors of Eastern International Investment & Development Corp, which was registered as a company in SA on March 15.

A possible exchange control contravention is being investigated by the Reserve Bank and the DTI office is investigating other aspects of Eastech's activities, having also received inquiries from a bank in Germany and "on an informal basis" from local banks. It has given Stander and Van Rooyen until May 18 to provide certain information.

The SAP commercial crime unit has "made certain investigations and forwarded its findings to the DTI office."

Says a DTI spokesman: "Should the gentlemen refuse or fail to submit the information, it could lead to criminal prosecution. Any person convicted of an offence in terms of section 82 (3) of the DTI Act is liable to a fine of up to R10 000 and/or imprisonment for up to six months."

No formal charge has been laid and "pending the given date no further action is being contemplated" by the DTI office.

No further action will be taken in the UK because the draft was presented in Mexico. ■

THE PERM FM 3/5/91

END OF AN ERA (58)

Following restructuring of the Nedcor group, which includes the Perm and Nedbank, the flamboyant Bob Tucker has resigned as Perm MD. The Perm will now fall under the new Nedcor Banking Division with Nedbank, Nedfin and computer company Pyraned. MD of the new division is Richard Laubscher, who will remain Nedbank MD.

Tucker, who once remarked that he would either succeed in revolutionising the Perm or ruin it, says one reason for leaving is that the Perm has ceased to be an independent business unit. He was asked to move to Nedcor to follow up on his scenario planning role but feels he "is uniquely positioned to continue this role outside the bank." Tucker has been involved in the Old Mutual/Nedcor scenario plan which has been presented to a broad spectrum of people and organisations including the Cabinet, the ANC executive and Inkatha. It looks at the social, political and economic challenges facing SA.

Tucker . . . *scenario planning*

Laubscher

Hibbit

Tucker has not decided what to do but believes he will be involved in trying to solve some of the socio-economic problems which haven't been addressed.

"Political freedom has been gained, but socio-economic circumstances have become worse," he says. "These need to catch up and I have to decide what role I can play in accelerating the process."

He says rationalisation has been on the cards since Nedbank and the Perm merged in 1989. The group has not reaped the full benefits of rationalisation and has decided to speed up the process. In the half-year to March, expenses rose 18,6%. Tucker believes rationalisation will contain expenses.

It's planned to rationalise computer and administration systems in Pyraned. Tucker says staff will not be laid off and client relationships will not be affected. The Perm and Nedbank will keep separate brand identities.

Tucker, with the Perm for eight years, will leave at end-June. Peter Hibbit has been appointed deputy MD and will take over as MD when Tucker leaves. Tucker says the Perm's commitment to social responsibility shouldn't change when he's gone.

☐ Other appointments include: Chris Beatty, formerly with the Board of Executors, as Nedfin MD; and ex-Allied GM Bruce Vermeulen as financial officer of Nedperm. ■

INSURANCE FM 3/5/91

LEARNING THE ROPES

Bill Schreiner, Ombudsman for short-term insurance, is finding not all insurers regard his word as final. (58)

Comparing his role, created two years ago, to that of his counterparts abroad, he notes:

Continued

FM 3/5/91 (58)

"In the UK claims up to about R500 000 that result in a recommendation by the Ombudsman are regarded as binding on insurer members of the Ombudsman's Bureau."

That's not yet so in SA, he adds: "Some companies are reluctant to follow a recommendation which is contrary to a decision that has already been taken — presumably because they believe they are entitled to adopt their own claims settlement policy with no outside interference."

Some of the insurers who pay for the ombudsman's office confirm the system is not settled. Typically, claims of more than R50 000 are decided by their own executive committees. They add that Schreiner, an advocate, is not yet totally conversant with insurance practice.

Even where law and insurance merge, the ombudsman's lot is likely to be rough. Julian Ferrand, the UK equivalent of Schreiner, was Dean of the Faculty of Law at Manchester University and is regarded as versed in general insurance law and the law of agency. Yet some of his rulings have caused resentment among insurers, some of whom now want to pull out of the voluntary arbitration scheme.

Schreiner's office deals largely but not exclusively with complaints from the public about repudiations of claims under personal lines insurance. With underwriting losses at unprecedented levels, underwriters are less than sympathetic to the idea of *ex gratia* pay-outs.

A leading insurer tells the *FM* he reckons 70% of claims are inflated or even fraudulent. In current conditions, underwriters apply conditions of contract strictly.

Some of those conditions are examined by the Ombudsman. The most common ground for repudiation of a claim is that no cover exists because a premium has not been paid.

"Failure of a debit order to operate is most common, because the insured at certain times of the year or in certain circumstances is short of money and does not take steps to ensure that funds are available when the debit is to be made."

Sometimes an employer is at fault by paying an employee late. At others, the banking system fails. There have also been cases where the broker or underwriter has not reacted promptly to a notice from the insured.

All cases have their own peculiarities, Schreiner says, and equity should play a part in determining whether to compensate when a debit order has not been met. But he is firmly on the side of the underwriter in cases where the insured could reasonably be expected to know that funds were not available to meet the premium debit.

He raises a complicated legal issue: "A person is generally not obliged to supervise the operations of his bank even though others may depend on the efficient operation of his bank account. That is so especially if, as in the case of insurers, it is they who have laid down how a premium shall be paid."

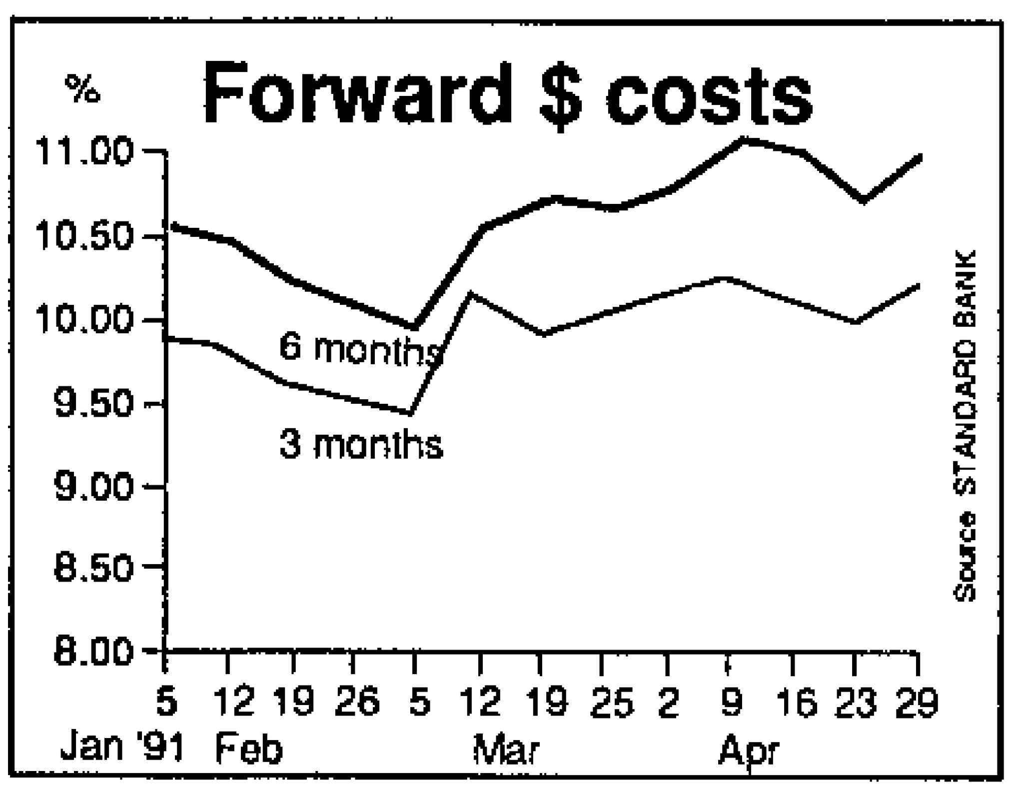
Another common problem, Schreiner says, is repudiation on the grounds of nondisclosure or positive misrepresentation. Sometimes the problems are subtle, as in defining levels of security in households.

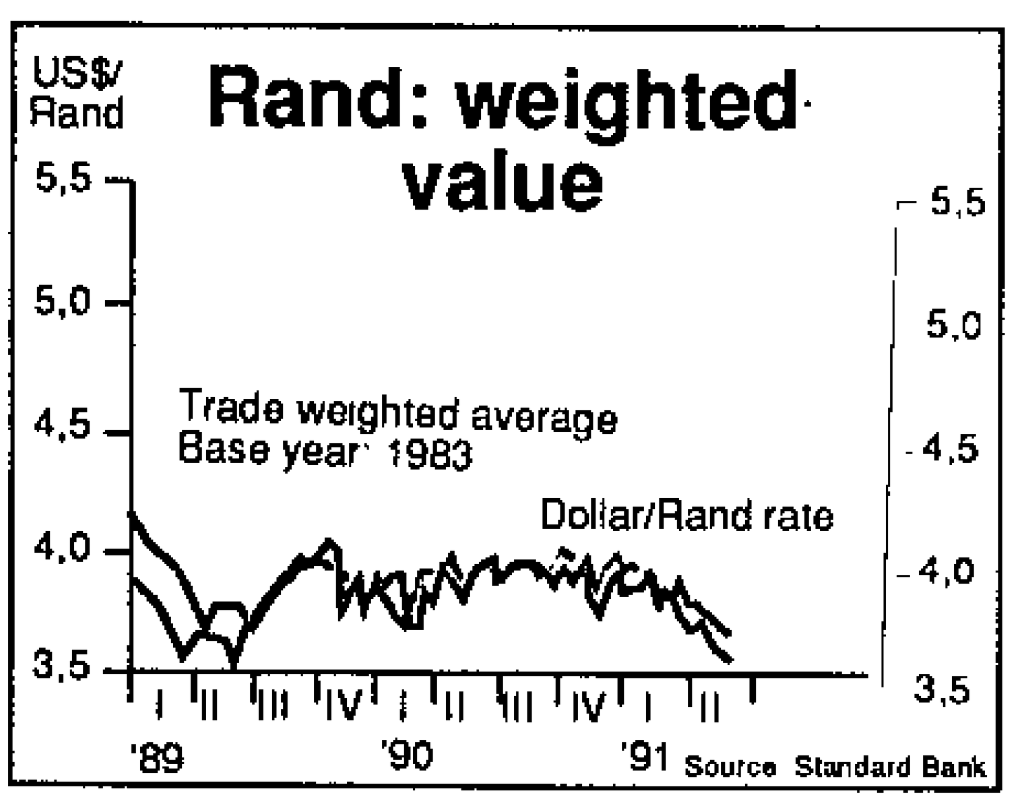
Though Schreiner refrains from name-dropping, there is little doubt some underwriters are more lenient than others. Nor will he give recommendations about underwriters.

But he does mention one of the more bizarre cases to cross his desk. A woman took out holiday insurance for a specific period of foreign travel. During that time, some of her property was stolen. As her grandmother was ill, she stayed abroad for longer than the cover period. Her claim was repudiated.

"When buying insurance, read the whole document," Schreiner advises. ■

MARKET INDICATORS





RAND'S PRICE

Apr 29 1991	R1 equals	One foreign unit equals (R)
SDR	**0,269**	**3,723**
	0,289	3,462
ECU	**0,305**	**3,281**
	0,309	3,235
UK £	**0,212**	**4,723**
	0,230	4,355
US $	**0,354**	**2,824**
	0,375	2,666
Canada $	**0,407**	**2,457**
	0,435	2,299
Switzerland Fr	**0,529**	**1,890**
	0,546	1,832
France Fr	**2,111**	**0,474**
	2,109	0,474
Germany DM	**0,627**	**1,596**
	0,628	1,592
Japan Yen	**49,065**	**0,020**
	59,625	0,017
Italy Lira	**463,720**	**0,002**
	460,065	0,002
Zimbabwe $	**1,065**	**0,939**
	0,903	1,107
Austria Schil	**4,420**	**0,226**
	4,420	0,226
Holland Guilder	**0,707**	**1,414**
	0,707	1,414
US $ value of SDR	1,302	**1,334**
US $ value of ECU	1,216	**1,178**
Financial Rand		
Cost per US $	4,061	**3,387**
Discount (%)	34,400	**16,667**

Year ago figures in light print.
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved
The above rates are for guidance purposes only.

INSURANCE — 2

FM 3/5/91 (58)

NOT SO SIMPLE

It is now certain that the two new Insurance Bills cannot pass into law this year. Drafts of both the Long-Term and Short-Term Bills were circulated last year with the intention of bringing them to parliament this year. Now industry sources think nothing will be done before next year.

One implication is that consumer protection becomes a deferred issue.

The two Bills separate legislation controlling the life and short-term industries and will revoke the composite laws dating from 1943. With that, there are few quibbles — the industries acknowledge they are separate and provide separate insurance solutions.

When drafts were circulated last year, the long-term version, prepared with considerable input from the life offices, was not expected to cause problems. The Short-Term Bill was said to have been cobbled together and the short period granted for comment caused some surprise. Yet it is now the Long-Term Bill that seems to be causing delay.

Theoretically, either Bill could go forward independently. If passed into law, its provision would override the 1943 legislation. Ideally, both should go through together.

According to a life office source, pressure on Pretoria's legal draftsmen now means a supposedly final draft of the Long-Term Bill will be circulated within three or four months, then go to the Joint Parliamentary Standing Committee on Finance after which, with luck, the Bill will be enacted early next year.

Wording, rather than purpose, seems to be the problem.

The latest version of the Long-Term Bill proposes dealing with consumer issues through a Long-Term Assurance Advisory Committee. Much earlier drafts had provided for consumer interests such as cooling-off periods when insurance contracts were bought, possibly under high-pressure selling.

Such clauses are now out, but the advisory committee can suggest to the Finance Minister from time to time how the industry should be regulated and those regulations would have legal effect. So presumably the committee is to monitor the public interest.

Though the consumer clauses will not be enacted, the regulatory route is left available — which should be more responsive to consumer needs. The chairman of the committee is the executive officer of the Financial Services Board, Piet Badenhorst, previously

Continue

FM 3/5/91

58

known as Registrar of Financial Institutions.

There are still some technical issues. One is the basis for valuation of liabilities — no longer a straightforward auditing conundrum, because the actuary must calculate the reasonable benefit expectations of members of a life fund. There will be two bases of calculation, one prescribed by the Act, the other determined by the actuary. According to some interpretations, the actuarial calculation means providing for the erosions caused by inflation — and making that clear in legislation is an understandable problem.

Possibly the most contentious outstanding issue is the presentation of life office accounts and how to standardise them. The two mutuals, Old Mutual and Sanlam, are established by their own Acts of parliament.

Proprietary companies, which fall under the Companies Act, would like a uniform method of accounting so that realistic comparisons may be made. That would involve, among other things, separating policyholders' and shareholders' interests. As mutuals have no shareholders the concept of "corporate funds" — which do not belong to policyholders — has arisen.

All these issues have suddenly become important. A simple exercise, the separation of the short-term and long-term insurance industries, has become anything but routine.

Saambou squares up for Trafalgar battle

58

Inside Out

Star 4/5/91

ANN CROTTY

IT'S difficult to know how Saambou shareholders will react to the latest results — a loss of 33c (for financial '91) does make Trafalgar's offer of 180c a share (for 30 percent of the shares) look very attractive.

It also makes change of control at 140c (a la the Fedsure deal) look quite expensive.

Having indicated that it was thinking of steamrollering the Fedsure deal through without shareholder consent, the Saambou board has now decided that it will give shareholders the opportunity to vote on the issue — no doubt in the spirit of the new SA. A general meeting has been set for May 15.

According to Saambou management the issue of all those convertible debentures did not require shareholder approval because there were sufficient authorised but unissued shares (to cover conversion) under their control.

The Saambou board seems reasonably confident that the Fedsure deal will, perhaps with the benefit of shareholder apathy, be passed.

But Myles reckons that shareholders will have to be persuaded that the new management team will perform considerably better than the old one that was only able to

Whatever has happened to the control situation at Imperial? It seems that the controlling shareholders sold — (which would seem to suggest that control was sold) — but nobody has bought control. Just a lot of like-minded institutions buying the shares on the same day.

Bob Tucker's departure from Nedcor immediately prompted speculation that he was moving over to Allied. Myles reckons that over the next few weeks Mr Tucker's name and future will be linked with every building society and financial institution in SA.

It seems that this week Mr Kahn was over in London investigating the EW Bradshaw side of the "JSE/Old Mutual" scam. Myles says that the guys in Diagonal St are decidedly nervous these days.

This follows news of the government's intention to clear the prisons of all those thousands of political detainees — thus making way for lots of white-collar criminal

Mortgage rates are expected to fall again

S8

HOMEOWNERS can look forward to further cuts in the bond rate before the end of the year. Star 4/5/91

This is the view of a leading estate agent, Scott McRae, managing director of the Camdon's Group, who says: "If the economists are correct rates could be down to about 17 percent within 18 months."

But he does not see a bond rate war breaking out following the Allied's decision to cut its rate to a basic 19,5 percent.

"What will undoubtadly happen, however, is that the big players in the market will go for market share. On that basis it may be possible for one institution to reduce its rates more than the competition.

"A far more likely scenario however would be for the big banks and building societies to attract business by way of service, and range of products.

"I would expect to see very aggressive competition on that front during the next few years resulting in better services for the homeowner and perhaps a number of innovative new products emerging."

FRANK JEANS

BANKERS IMPRESSED BY FW'S RECENT OVERSEAS TOUR

SA loan triumph

4/5/91

Weekend Argus Correspondent

LONDON. — South Africa is discreetly returning to international capital markets and has successfully extended a R135 million loan, say bankers.

Returns for investors are generous as the yield of the three-year loan has been placed at 10 percent, about 2,5 percent above dollar bonds of similar duration.

The privately placed bonds were extended in the past few weeks, the sources said. Although the issue, negotiated by Swiss and other European banks, is a refinancing measure and does not attract new money to South Africa, it is regarded as a success.

It follows a Deutschemark R192-million loan refinancing package for Eskom and the response for that privately placed issue was also good. This is hardly surprising. South Africa's repayment record is impeccable and the yield at 10,75 percent on that four-year loan is about 2 percent higher than other Deutschemark bonds.

South Africa's re-entry into the international capital market was within weeks of President De Klerk's visit to Europe. Bankers were impressed with his performance. Initial international financing is expensive for the borrower, but there is little alternative so far.

Bankers believe that the yield premium of the bonds will remain high until the debt moratorium is relegated to history. Moreover, there is continual concern about violence, uncertainty about the intentions of the African National Congress and worries about the South African economy with its high inflation rate.

'New spirit of co-operation'

Although reflecting an impressive improvement in confidence, South African debt has soared to 87 cents in the dollar from 81 cents a month ago and only 70 cents last August. It compares with Brazil's tradeable debt of 28 cents in the dollar, Argentina 22 cents, Mexico 57 cents, Venezuela 62 cents and Chile 86 cents.

The financial rand discount has narrowed to 17 percent, from around 30 percent nine months ago. It is down to levels in the early eighties just before the Reserve Bank scrapped the investment currency temporarily.

Eskom, meanwhile, is working in a "new spirit of co-operation" with Portugal and Mozambique in arranging finance for the repair of Cahora Bassa, says Mr Francois Botha, assistant general manager international financing of Eskom.

The splendid performance of rand bonds on international markets has also boosted confidence. Since November, when Reserve Bank governor Mr Chris Stals hinted that the dual currency would be gradually abondoned, the financial rand has appreciated by 10 percent against the dollar.

For European investors this has proved to be a boon, because the appreciation in terms of their own currencies is more than 20 percent. Meanwhile, interest income from those bonds amounted to about 11,5 percent in the same timespan.

Mr Botha estimates that 44 percent of local registered rand bonds is held by foreigners. More than 50 percent of the R30 billion Eskom debt, denominated in all currencies, is in the hands of foreign investors and most of them are private individuals.

These measures are also known as debt roll-overs. About half of South Africa's debt in 1990 was rolled over and a further R1 billion of this year's total R2,1 billion debt is expected to be rolled over.

But the latest re-financing package is significant in that economists believe that previous roll-overs were extended almost exclusively to parastatals, like Eskom and Transnet, and not to the government.

Furthermore, the refinancing package was placed on international capital markets, whereas other roll-overs in the main involve the simple extension of the original debt repayments.

While the reform programme has made it significantly easier to extend the debt repayments and ease the balance of payments pressures on the economy, new loans to this country are a different matter.

The US Assistant Secretary of State for Africa, Mr Herman Cohen, said this week that the US would maintain leverage over South Africa by continuing to block the government's access to IMF funds even if the Comprehensive Anti-Apartheid Act was lifted.

More than meets the eye at Nedcor

S Times 5/5/91. (58) Bus Times

NEDCOR bared an adjusted income statement this week to counter the real report to investors for the six months to March.

The final earnings and dividend figures look the same, but the paths differ. The major differences are in operating expenses and bad-debt provision.

The real income statement shows an 8% fall in provision for bad debt to R84-million.

Chief executive Chris Liebenberg says the more realistic picture is a 15% increase to the same figure.

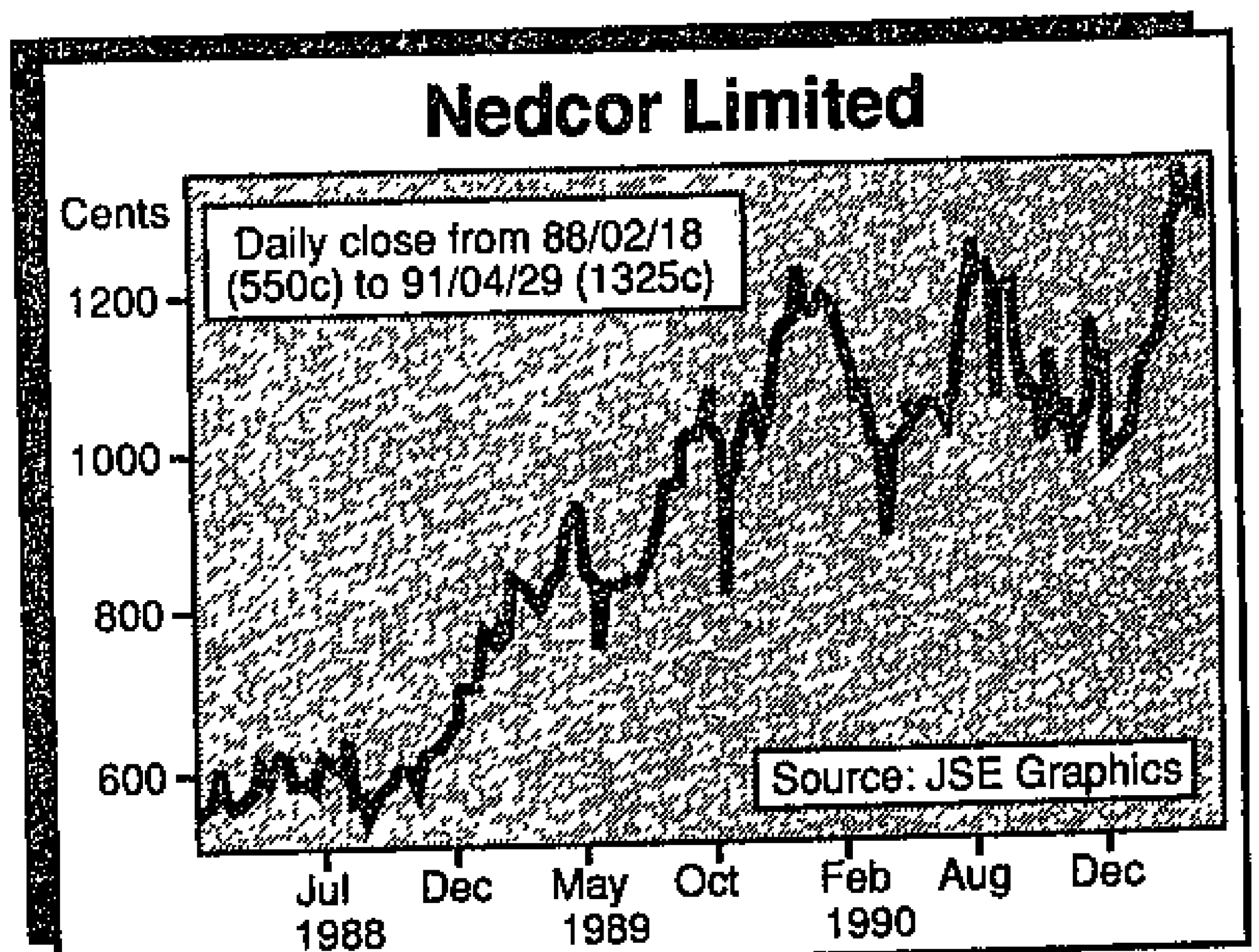
Last year's bad debt was distorted because of the big loss suffered by UAL. Taking that out of the comparative, provision actually rose.

Mr Liebenberg says although the group's home loan book has grown, bad debts have begun to creep in — something unheard of five or 10 years ago.

The rise in operating expenses in the official income statement is 19% to R713-million on a total of R1,086-billion. The true picture is a 24% climb.

One of the reasons is depreciation coming through on earlier capital investment, another is extensive credit-card fraud. Fast growth in home loans has also added to costs.

Mr Liebenberg says Nedcor is in a full tax-paying position. Tax equalisation of R30-million and proper tax of R92-million were almost the reverse of the two figures in the six months to March 1990.



He says the adjustment to deferred tax at a rate of 48% is still to be made. The tax charge will be more effectively managed now that it is real not notional.

He is confident that Nedcor will reach the BIS capital requirement of 8% by December 1994. The capital to assets ratio is already 7,25% without the allowed revaluation of strategic assets.

For the first time, Nedcor's capital and reserves top R2-billion of which R259-million is called secondary reserves. This rainy-day pool of funds means that Nedcor could take a R520-million bath on debt before shareholders' funds were hurt.

Mr Liebenberg says Nedcor would have to suffer a disaster of R850-million before-tax to harm shareholders. Shareholders must hope that such losses are not in the offing.

Home loans represent 41% of Nedcor's advances of R27,99-million.

Mr Liebenberg makes comparisons of Nedcor statistics with those of other banks.

Its return on equity of 20% is the same as Stanbic's and second only to First National. Return on assets of 0,89% is between Stanbic's 0,88% and Absa's estimated 0,9%, yet the staff number of 17 750 is well below all but Bankorp's.

Although Nedcor's expenses grew fast, only First National's exemplary 14% increase was noteably better. Nedcor's expenses-to-income ratio of 65,7% is still the lowest.

The group's divisions have been reshuffled. Bob Tucker is to leave his executive position at the Perm. Richard Laubscher will take on greater responsibility and some new blood has been infused.

Nedcor shares last traded at R13,35, only 7,9 times historic earnings First National's price-earnings ratio is 8,3, Stanbic's 11,3, and Absa's a notional 9,5.

Absa beds down four different companies

S|Times 5/5/91 (Buss Times)

By IAN SMITH (58)

ABSA BANKING group, born of the bitterly contested takeover of Allied and the merger with United, Volkskas and part of Sage Financial Services, is shaking down well, says chief executive Piet Badenhorst.

The head-office structure of the R50-billion group will be in place in Johannesburg's United Towers in four weeks.

All the companies have been brought into line with a uniform set of accounting practices. The group's first results are due on May 27.

Six computer centres which served the separate companies will be reduced to three at United Towers East, Allied Park in Sandton and another United operation at Bedfordview.

Hardware will be sold and premises will be available for letting in the interim.

The executive committee set up by Mr Badenhorst has not yet turned its attention to its biggest task — rationalisation of 1 000 branches conducting the group's retail operations.

"This will be a difficult task," says Mr Badenhorst.

Response

The Allied's head office and other group executives have moved to Allied Bank Centre in central Johannesburg. Allied Park will be devoted to computer operations, with programming staff working in former executive offices.

The first Absa main board meeting has been held. All boards of operating subsidiaries and their audit committees are in place.

"We are not wasting any time, but neither can we rush," says Mr Badenhorst.

He says the opportunity to choose executives from all four elements of Absa has given the board a chance to build an "outstanding" banking group.

He is pleased by the response to the formation of Absa from foreign bankers.

"Our much bigger clout has caused everyone to look at us with new eyes.

"Even in SA people who have not dealt with any of our three constituent banks are taking another look."

NICO CZYPIONKA: Never so many delegations from abroad as now

Saambou hit by bad debts

S|Times 5/5/91 (58) (Buss Times)

By DIRK TIEMANN

BAD DEBTS knocked Saambou group's results, default on bond repayments leading to a sharp rise in property repossessions.

An extraordinary provision of R28,1-million is made in the accounts for the year to March 31 for the bank, building society and Saambou Wonings.

Township unrest and the higher risk involved in lending to this market are also given as reasons for the provision.

There is, however, talk that a R91-million exposure to gilts played a major role in it. But Saambou managing director Johan Myburgh says: "We have not provided for the gilts because interest rates are falling and we can only do better."

Even if the provision is ignored, Saambou group did badly. Net operating income fell to R4-million from R29,2-million in 1990. Net pre-tax income became a deficit of R24,1-million.

Attributable income became a deficit of R28,3-million compared with a positive R18,6-million in 1990. Mr Myburgh says margins are being squeezed because the old tax-free and semi-tax free investments are maturing and the money is being reinvested at higher interest rates.

"We have also lost savings market share, mainly because of our lack of innovative products. Our only new product of late, the Money Manager, is no longer advertised on TV because of our computer problems."

Interest paid on deposits rose 30% to R629-million.

Mr Myburgh says a dividend will be paid because many individuals depend on it.

"We view these results as a temporary setback. Unrest should improve and we should be able to reduce our provisions. The rationalisation and retrenchment that we have undertaken should also help. We must improve margins and lift productivty."

Mr Myburgh says that because of the poor performance, the directors are anxious to push the Fedsure deal through — the threat of a hostile takeover is real.

"Fedsure is important to us because it can provide the capital we need in bad times."

Saambou's final dividend of 6c takes the year's total to 11,5c.

Assets rose 12,2% to R4,1-billion, of which advances increased by 19,4% to R3-billion.

HAROLD FRIDJHON in the Money Markets

Is a Bank rate cut imminent?

(58)

CONVENTIONAL wisdom surely indicates that a Bank rate cut must be waiting just around the metaphorical corner. All the superficial evidence is pointing in that direction. But is that wisdom, or is it wishful thinking? B/Day 6/5/91.

Let's examine the superficial evidence: the Treasury bill (TB) rate has shed 23 basic points during the past four weeks and is now 16,61% discount, 39 basic points below the Reserve Bank's rediscount rate.

The lowest rate for 90-day liquid bankers' acceptances (BAs) has been pruned by 25 basic points in the past month to Friday's 16,95%, 55 basic points below the Bank's rediscount rate. Some banks are quoting 17,05% on BAs. First National's rate was 17,30% but will be 17,05 today.

The market's debt to the Reserve Bank, the so-called shortage, exceeded R2bn on two occasions in the past month and then only after the Bank had siphoned off the best part of R2bn excess liquidity.

The question that must be asked is whether the flood of liquidity is a sign that SA has at last emerged from a long period of financial aridity into a period of plenty.

The answer is a very definite no. Although the gold and foreign exchange reserves have improved in recent months, SA's financial position is far from buoyant. The trade balance is fair but we have yet to see concrete evidence that foreign bankers and investors are ignoring the political violence and pouring cash into SA.

It's not new money which is causing the flood; it's pent-up government spending, a carry-over from the last fiscal year into the current fiscal year, a Chinese device which has been practised for decades to pretty up the books.

At great cost to you and me, the Reserve Bank has been scooping money out of the banking system to prevent rates from falling too low, probably because Governor Chris Stals knows the drought cycle has not been broken and that Bank rate cuts are not around the corner. I have no doubt tight monetary policy is still firmly in place and those who have been banking on cheaper money in the near future will be sorely disappointed.

For instance, people who have switched from BA finance to overdrafts might discover that they have made a costly misjudgment. Bankers say the creation of BAs, liquid and non-liquid, has slowed down and that that is the reason why the market has been short of tradeable assets.

The BA market has also been disturbed by new regulations under the Deposit-Taking Institutions Act which imposes the obligation on the bank to make reserve provisions for BAs it creates. The Reserve Bank has apparently cleared up misunderstandings about which bank must make the provision. When a bank sells or discounts a BA to another bank it also passes on the responsibility to make the necessary reserve provision. But when a bank sells the BA to a non-banking institution, the bank is still responsible for the reserve provision. That provision adds about 30 basic points to the cost of BA finance.

Battle for Saambou intensifies

BDay 6/5/91 58

GRETA STEYN

THE battle for the hearts and minds of Saambou shareholders begins in earnest this week in the run-up to a crucial general meeting on May 15.

The surprise announcement of the general meeting came after directors hinted they would push through a deal with Fedsure without shareholder approval. An alliance with Fedsure will scuttle the new hostile takeover bid by Trafalgar Portfolio Managers.

Campaigns by the opposing camps to woo shareholders will reach boiling point in the coming days, with the focus on the stake of almost 50% held by small shareholders.

The building society group released such weak results at the weekend that Trafalgar's plans to offer 180c a share appear generous. The share has hovered around that level in the market for some weeks now and it seems unlikely that speculative buying will take it higher after such a poor financial performance.

Saambou made a loss of R28m in the year to March 1991 compared with a profit of R18,5m in the previous financial year. Squeezed margins and soaring operating expenditure pushed operating profit down 86% to R4m and this was wiped out by abnormal bad debt provisions of R24m.

MD Johan Myburgh said "a substantial portion" of the abnormal provisions was against properties in black residential areas, while the rest reflected pressures associated with the recession. While only about 2,5% of Saambou's book was tied up in black housing, "the instability and unrest in black townships" had increased risk.

Operating expenditures rose by 34% because of a fall-off in productivity levels. Myburgh explained this was the result of obsolete computer equipment.

Asked why Saambou had experienced squeezed margins while other banks reporting recently had been comfortable, Myburgh conceded that the asset and liability management had not been up to scratch. He also noted that retail deposits (those of small savers) had increasingly been replaced with more expensive wholesale (corporate) deposits.

Trafalgar argues Saambou's management problems has seen its assets under-perform. Myburgh noted that a management reshuffle took place after he joined Saambou from Bankorp a few months ago. Other new imports from Bankorp include marketing GM Dawie Botha, finance GM Charles Edwards and treasury GM Hendrik van der Merwe.

Explaining management's and the directors' hostility to Trafalgar, Myburgh said it appeared Trafalgar did not have the capital resources needed for banking. He feared Trafalgar would "asset strip" Saambou and then close it down if it succeeded in its takeover bid.

He also noted that Trafalgar had not yet made a formal offer for the building society group; it had only advised Saambou of an intention to make an offer. That meant that it had not yet obtained approval from the Registrar of Banks — a step Myburgh believed might prove difficult given Trafalgar's apparent lack of capital resources.

Myburgh said the decision to maintain the dividend (at 11,5c for the year) showed the directors' faith in the group's future. The group had to dip into special reserves to finance the pay-out.

'Rates to stay high'

CAPE TIMES 6/5/91 (58)

Polticial Staff

RESERVE Bank governor Dr Chris Stals has renewed his warning that interest rates are unlikely to decline again until the end of this year — at the earliest.

Addressing an economics seminar at Stellenbosch University's Business School at the weekend, Dr Stals said that while the central bank had met most of its intermediate monetary objectives, the level of inflation did not yet justify further relaxation of monetary policy as a means of kick-starting the economy.

He noted that the recession, which was entering its 29th month, had already lasted far longer than previous downturns, which had averaged 17 months, but added that the only real basis for lower interest rates was lower inflation.

Inflation's downward trend was disrupted by the Gulf war but recent signs indicated that the trend might resume.

However, Old Mutual economists warn in their latest economic report that inflation remains one of the major structural problems in the economy.

The year-on-year inflation rate remained close to 15% — having peaked at 15,7% in June 1989 — in spite of a two-year recession.

Dr Stals was adamant that "for the rest of 1991 at least", the Reserve Bank would continue to resist the pressure for a reduction in interest rates.

He warned that further relaxation in monetary policy would serve as a short-term stimulant but could harm prospects for longer-term economic growth.

"We have learned from past experience that economic upswings triggered by large increases in domestic expenditure lead to an early balance of payments problem, and, unless we have ample foreign reserves at our disposal, force restrictive monetary and fiscal policies before the upswing has gained much momentum.

● Barend speaks on VAT — Page 4

Saambou's financial year scarcely one to remember

Star 6/5/91.

(58)

By Ann Crotty

Saambou's results for the 12 months to February are little short of appalling — a R4 million operating profit on a book of R3 billion and a R28,1 million provision for possible losses.

Although this severe treatment of the 1991 accounts was implemented by the old management, it does smack of the treatment meted out to the Bankorp figures after Piet Liebenberg's appointment as CE.

It may only be coincidence that most of the new Saambou management team are ex-Santambank executives.

Saambou's new chief executive, Johan Myburgh, is emphatic that the '91 provisions represent "a realistic view of present conditions".

Apparently much of the R28,1 million provision relates to exposure in the black townships — in the form of home loans and property developments.

Given that the black home loan book is only R120 million (out of a total of R3 billion), it suggests either a major deterioration in Saambou's arrears/default experience on this front, or extreme conservatism.

The directors say: "The instability and unrest in black townships increased markedly the risk in respect of properties against which money is lent."

If this sort of provision is realistic and Saambou is not hopelessly out of line with the industry, then it would seem that other home loan institutions have downplayed the extent of the deterioration.

In financial '91, operating income slumped to R4 million (R29,2 million).

Mr Myburgh says this reflected the heavy administration costs associated with an old and inefficient computer system.

In addition, there was very little attention paid to asset/liability management.

Shareholders who are disappointed with the figures will probably feel that there is not much else that a financial institution can do wrong.

They will need to decide ahead of the May 15 general meeting (convened to authorise the issue of convertible debentures to Fedsure) if they want to throw in their lot with the new management team or partly bale out and sell 30 percent of their holding to Trafalgar at 180c a share.

The Trafalgar offer, which is conditional, has not yet been made formally.

On the plus side of staying with the new management team (which will involve the Fedsure/Planet Finance transaction) is that the new guys seem keen and have devised a more aggressive growth strategy.

This trategy, which includes extensive and costly rationalisation moves, is already under way. Steps have been taken to boost the level of employee productivity.

Management says: "The group will focus on satisfying the financial needs of its existing clients, as well as any other individual or salaried person by offering innovative and appropriate financial products and services at an acceptable return."

Indications are that the services Saambou will be offering are similar to those being offered by Santambank ahead of the Bankorp restructuring.

Management's intention is to spread the advances book (which now comprises about 90 percent home loans) more evenly to include a much higher proportion of HP/lease agreements and personal loans. This spread will produce a much higher return on assets.

A much greater emphasis is being placed on asset/liability management.

To this end, the stature of the treasury department has been significantly enhanced.

If shareholders believe that this will all work well, then it is worth staying in for the ride.

The Fedsure deal should also enhance Saambou's growth prospects as it gives the building society a strong partner and the R50 million capital injection that Saambou will get from the deal will enable it to grow its asset base by R600 million.

However, if Saambou's prospects are that good, then some shareholders may regard the 140c at which the Fedsure deal is being struck as a bit cheap.

The deal does give Fedsure effective control of Saambou. The latest balance sheet shows net asset value at 222c a share.

The effect of the R28,1 million (31c a share) provision was cushioned by the revaluation of properties, which added 28,8c a share.

(Until the convertible debentures are converted, Fedsure will be paying R1 million a year for the conversion option).

5)

Mortgage specialist targets well-to-do

(58)

B/Day 7/5/91

ROBERT GENTLE

THE concept of the specialist mortgage lender has arrived in SA in the form of Capital Resources, a dedicated lending company that offers mortgages at about 1% below market rates, thanks to a low cost infrastructure.

More important, Capital will subsequently sell off pools of its mortgages to third parties who will securitise them — that is, convert them into negotiable securities.

This is expected to play a major role in the further development of mortgage-backed securitisation issues.

The only one to date is MS 101, the result of the UBS securitising R250m of its mortgages in late 1989.

Capital functions along the lines of similar UK companies like National Home Loans or Household Mortgage Corporation, which have become prominent in that country's multibillion-pound mortgage-backed securities market.

Capital spokesman Roland Ackerman said his company, which had been operating "discreetly" for about a year, counted among its shareholders a financial institution.

He said there was no conflict with the Deposit-Taking Institutions Act because Capital did not take deposits. It obtained its funding through loans from financial institutions, although it would eventually become self-financing as pools of its mortgages started to be securitised.

"We are not endeavouring to chase market share or to take on the big mortgage lenders in any way," said Ackerman. "We are targeting a very specific niche — the upper-income bracket."

Debt rating

The company was "very conservative" in its approach, with mortgages starting at R85 000 and taking the form of guaranteed endowment bonds.

Capital had already been in touch with debt rating agency Republic Ratings with a view to obtaining a rating, said Ackerman.

Discount House Risk Management, the company that structured the MS 101 issue, expressed keen interest in Capital.

"If they can offer a pool of assets suitable for securitisation, we would be happy to be the lead manager and put the deal together," said MD Julian Knopf.

Investment firm sets up new short-term fund

58

B/Day 7/5/91 ROBERT GENTLE

A SHORT-term investment fund was launched yesterday which claims to be the first to offer investors above average returns with absolutely no risk of losing their original investment.

All monies lodged in this Protected Investment Fund, the work of Growth Protected Investments, are lodged in the investor's name at Mercantile Bank, a registered Deposit Taking Institution.

Investments, which can range from R1 000 to more than R1m, will be pooled and used in high return markets like shares, derivatives, money market instruments, leveraged buy-outs or commercial property options to generate annual returns ranging from 25% to 40% or more.

Growth MD Trevor Nel said the fund had secured experienced specialist advisers and traders from companies like stockbrokers Kaplan & Stewart, Econometrix Financial Services, Indexia Research, First Financial Futures and Johannesburg Options Market.

Investors will receive 70% of all profits generated, with the balance going to the company directors.

Management and expenses fees will be derived from profits, and management fees will not exceed 5% of the original investment, Nel says. No upfront fees are payable.

These twin factors were the biggest incentive for the fund to perform.

"When we win, the investors win. When we lose, we lose alone," he said.

In the interests of investor safety, the fund boasted five safety "filters" between the investor and the market: Mercantile Bank, an independent board of trustees, a board of directors, a funds allocation committee and registered brokers.

The MINISTER: We have difficulty in applying the restrictions and seeing that no transgression takes place because of a shortage of manpower. We are therefore looking at alternative methods to facilitate control. They have not taken effect yet, but we have problems in protecting such areas

Insurance Act: amendment

*2. Mr M F CASSIM asked the Minister of Finance: Hansard 7/5/91

(1) Whether consideration is being given to amending the Insurance Act, No 27 of 1943, in order that the amount of R10 000 provided for the family of a deceased after creditors' claims have been settled may be increased from time to time to keep pace with inflation; if not, why not; if so, what steps does he intend taking in this regard;

(2) whether he will make a statement on the matter? 58

D108E

The MINISTER OF FINANCE:

(1) Yes; a proposed increase to R30 000;

(2) a suitable proposed provision will be included in the long-term Insurance Bill which will be submitted to Parliament during 1992.

Mr M F CASSIM: Mr Chairman, arising out of the hon the Minister's reply, I am glad to hear the amount of R30 000 being mentioned, but from what date has this amount been set down?

The MINISTER OF FINANCE: Mr Chairman, on account of the fact that the long-term Insurance Bill will only be available for debate in Parliament in the next Parliamentary session, this particular amendment can only be made during the course of the next Parliamentary session.

Mr M F CASSIM: Mr Chairman, further arising from the hon the Minister's reply, is it not possible in the mean time to make any interim arrangement?

The MINISTER. Mr Chairman, I will have to have it examined from a procedural point of view in order to see whether it may be possible to include a small amendment in one of our other bills. I am not in a position now to say whether that is tenable from the point of view of Parliamentary procedure. I will certainly have it investigated. I would presume that the fact that my legal and technical people gave me this particular reply is an indication that there may be a difficulty in including an Insurance Amendment Bill under our financial bills I will nevertheless have it investigated and, if at all possible, I will have it included. If it is not technically possible, then obviously there is a technical impediment. However, we would not like an unnecessary delay, the implementation of a R30 000 limit. If it is technically possible, I undertake that I will arrange accordingly. 58

D F Malan Airport: upgrading

*3. Mr M RAJAB asked the Minister of Transport:

(1) Whether it is the intention to upgrade D F Malan Airport so that it may handle Category three landings; if not, why not; if so, when;

(2) whether equipment allowing for landings with a cloud ceiling at 20 feet and visibility at 200 metres is available at this airport, if so, why has it not been installed; if not, when will it be acquired;

(3) whether he will make a statement on the matter?

D113E

The DEPUTY MINISTER OF JUSTICE (for the Minister of Transport):

(1) No, the relevant airport has since 8 November 1990 been equipped to handle Category three landings;

(2) Yes. The equipment was already installed on 8 November 1990 as mentioned above, and

(3) No.

*4 Mr M Rajab—Law and Order. [Question standing over.]

Mr M RAJAB: Mr Chairman, could the hon the Deputy Minister give us any particular reason as to why he wishes the reply to this question to stand over?

The DEPUTY MINISTER OF LAW AND ORDER: Mr Chairman, the Department is not in a position to reply to this question today. That is why I asked for the question to stand over

CSIR: report

*5. Mr M ABRAHAM asked the Minister of Transport:

(1) Whether a report dated 27 June 1989 was prepared for his Department by the Council for Scientific and Industrial Research; if so, what (a) is the title of and (b) are the recommendations contained in this report;

(2) whether any of these recommendations have been accepted by his Department; if not, why not; if so,

(3) whether any such recommendations have been or are to be implemented; if not, why not; if so, (a) which recommendations and (b) in what manner have they been or will they be implemented?

D117E

The DEPUTY MINISTER OF TRANSPORT:

(Reply laid upon the Table with leave of House).

(1) Yes, in co-operation with a firm of consulting engineers Jordaan and Joubert;

(a) A Synthesis of South African Practice in Traffic-Law Enforcement,

(b) The conclusions and recommendations are attached as annexure "A" due to the extent and statistical nature thereof

(2) and (3) Yes Many of the recommendations contained in the report have already been implemented by the Department of Transport. In this regard I would like to point out that the greater part of the Road Traffic Act, 1989, is already in operation and the Department is well on its way to establish uniform road-traffic standards throughout Southern Africa

The consolidated Road Traffic Regulations in terms of the Road Traffic Act, 1989, already provide that the tread depth of a tyre shall not be less than 1 mm throughout its breadth.

The Department has also established a law enforcement working group which has already compiled a law enforcement programme for the enforcement of overloading offences. A Training Committee for Traffic Personnel has been instituted to advise me with regard to any matter relating to the training of traffic personnel. Three training manuals have already been compiled for the training of traffic officers, examiners of vehicles and inspectors of licences

I would also like to point out that tenders for the National Traffic Information System (NaTIS) have been put out. The closing date for tenders has expired and the Department is currently busy assessing the tenders received and it is envisaged that the tender will be allocated not later than 4 July 1991. Implementation of the NaTIS system will start during 1992 and the system will probably be fully operational in 1994

Some of the recommendations in the report deal with the amendment of the Criminal Procedures Act, 1977, and the adjudication of traffic offences. Draft legislation has already been compiled by the Department of Justice which addresses certain of the recommendations ie the prosecution of parking offences I will shortly consult with my colleague, the Minister of Justice, to address further problems relating to the adjudication of traffic offences

ANNEXTURE "A"

17. CONCLUSIONS AND RECOMMENDATIONS

The conclusions and recommendations from this synthesis are summarised as follows:

17.1 The standardisation of the road-traffic legislation by the adoption of the Road Traffic Act, No 29 of 1989, must be applauded. If this Act is accepted as the blue print for all road-traffic legislation, it will pave the way for uniform road-traffic legislation throughout Southern Africa.

17.2 The legislation in respect of the duties of traffic officers could be described as complicated and having many pitfalls, this legislation should be simplified. Limiting the authority of a "peace officer" to the area of jurisdiction of the actual employer is dangerous and unacceptable and should receive the necessary attention as soon as possible

17.3 The requirements for the law of criminal procedure pertaining to the personal serving of summonses, instead of allowing them to be sent by mail, have become totally impractical in view of the large

Star 8/5/91

New party joins battle for Saambou

By Ann Crotty 58

In an unexpected development yesterday a new party entered the battle for control of Saambou with an appeal to Saambou shareholders to reject the Fedsure/Saambou transaction, which is aimed at giving Fedsure effective control of Saambou.

An advertisement in today's paper says the deal is being challenged by parties claiming more than 30 per cent of shareholder support.

It is thought that these parties could include Prestasi (13 percent), Trafalgar (an estimated six percent), Metropolitan (five percent) and Sanlam's six percent, which was recently sold.

Charles Turner, managing director of DMB Securities, and Jannie Grobbelaar, director of Senekal, Mouton and Kitshoff, say they are acting on behalf of shareholders owning more than 30 percent of Saambou, and who will vote against the acquisition.

The advertisement states: "Approving the acquisition could result in a decline in the market value of Saambou shares."

Shareholders are urged to vote against the transaction at next week's meeting for a number of reasons: insufficient information; the deal could be a desperate attempt to frustrate other offers; it is in favour of Fedlife; Saambou's business may be restricted by Fedlife; no offer has been extended to minority shareholders.

Think-tank meets on financial services tax

B Day 8/8/91

GRETA STEYN

SENIOR bankers meet Finance special adviser Japie Jacobs today to hammer out a way in which to tax financial services instead of levying VAT.

The meeting follows two get-togethers last week during which bankers voiced objections to the proposed "turnover" tax and made some suggestions of their own.

Rumours have been rife that the turnover tax will be ditched in favour of another form of taxing banks and other financial services. Jacobs said yesterday no final decision had been made.

"I cannot yet say the tax on interest earnings will definitely be implemented. It will depend on the outcome of my discussions with bankers. But my own view is that it is the best way to tax financial services instead of levying VAT," he said.

He added participants in the financial markets had told him they were worried the tax would be a severe blow to the money and capital markets. "Their concern is that the tax will distort the interest rate structure in the markets. But I can give them the assurance this was never our intention. We do not intend hitting every trade in the markets with a tax."

This will allay the fears of small merchant banks that their jobbing activity in the markets would be severely curtailed.

Jacobs said five suggestions on how to tax the industry were under discussion but did not expand on this. While he supported the tax on gross interest earnings, he felt attention had to be given to the definition of the tax base. Some banks have suggested that transactions between banks should be excluded and that they should only be taxed on their interest earnings from non-bank investors.

Government announced in the Budget it hoped to raise R170m from the tax in the second half of the fiscal year.

The tax will be implemented to coincide with VAT on September 30, although it is not really a form of VAT on financial services. Government decided to levy the charge on interest earnings as financial services would be exempt from VAT. Analysts calculate it could slice more than 8% off the pre-tax profits of the major banks.

8/8/91

58

Saambou-Fedsure deal in balance

58

GRETA STEYN

SAAMBOU's deal with Fedsure hangs in the balance after more than 30% of shareholders banded together to oppose it.

And they have called on others to vote against the transaction at next week's general meeting.

The group of small shareholders has enlisted the services of DMB Securities and stockbrokers Senekal, Mouton and Kitshoff to help fight their battle.

In an advertisement in today's newspapers, they say approval of the Fedsure acquisition "will result in a decline in the market value of Saambou shares".

Saambou has indicated it will respond to the points raised with its own advertisement this week.

A Saambou shareholder, who wishes to remain anonymous, enlisted the help of independent financial ~~consultants~~ Sklar, De Villiers and Cohen to comment on the financial implications of the Fedsure deal, as described in Saambou's circular to shareholders.

The consultants conclude "the financial ramifications to the shareholders will be adverse" and urge shareholders to oppose the deal at next week's meeting.

DMB Securities MD Charles Turner said: "The directive sent to shareholders from Saambou contains insufficient information to enable meaningful evaluation. The acquisition may well be considered a desperate attempt to frustrate other offers

☐ To Page 2

Saambou

B Day 8/5/91.

58

☐ From Page 1

to shareholders."

This was a reference to Trafalgar Portfolio Managers' offer to buy 30% of the group at 180c a share. In an effort to stave off a hostile bid, the directors struck a deal with Fedsure at the end of January which would give Fedsure an option to buy a 30% stake in Saambou.

In return, Saambou would acquire from Fedlife an eastern Cape leasing company, Planet, valued at R55m.

A major point of contention raised in today's advertisement is the fact that no offer has been made to minorities, even though Fedsure subsidiary Fedlife will hold more than 30% of the share capital if it exercises its option.

"We believe the offer must be far better than the 140c per share offered by the Planet deal," Turner said, adding that the Allied-First National saga should motivate shareholders to oppose the Fedsure transaction.

Boland Bank lifts earnings

Finance Staff 58

Star 8/5/91.

Despite a continued high level of bad debt, Boland Bank showed a 14,1 percent rise in profit in the past finanacial year.

The group returned a profit of R17 million after tax and transfers to internal reserves, compared with R14,9 million for 1990, while earnings per share rose to 126,4c (110,8c).

MD Gert Liebenberg said yesterday the growth in profits was achieved "against a background of a conservative asset-growth policy and a continued high level of bad debt".

"The gradual phase-in of the statutory capital requirements stipulated by the Deposit-Taking Institutions Act, compelled us to pursue a conservative dividend policy.

"Accordingly, it was decided to increase the final dividend by only 1c to 27c, resulting in a total dividend for the year of 48c," he said.

Fedsure/Saambou deal remains in the balance

Star 10/5/91.

Diagonal Street

58

NN CROTTY

With the considerable benefit of hindsight it looks as though the Fedsure/Saambou team were fairly lax about ensuring that their deal would be implemented — either with or without shareholder approval.

That team could now be dangerously close to snatching defeat from the jaws of victory.

What will be particularly galling to Fedsure/Saambou is the apparent lack of substance of the opposition attempting to block the necessary approval of the transaction. (Although there is speculation that Senbank could be the ultimate backer).

Saambou shareholders have reportedly been offered 180c a share for 30 percent of their holdings by Trafalgar.

There seems to be two problems with this offer. One is that it has not yet formally been made.

The other concerns what will happen to the 70 percent stake that shareholders cannot sell to Trafalgar.

However attractive the 180c offer appears, Saambou shareholders should note that it is only for 30 percent of their holdings.

It is difficult to say whether or not a battle for control — in the event of the deal being blocked — would hold the share price at or above 180c long enough for the average shareholder to off-load a larger percentage at this level.

The recent hype in the financial sector and the scramble for financial assets could see the

lion) to Saambou in exchange for the issue of 39 million convertible debentures which would, on conversion, be equivalent to a 30 percent stake in Saambou.

There has been little specific detail about how this will benefit Saambou in the long term.

Just this week Saambou's new MD Johan Myburgh said the R55 million capital injection would enable it to increase its assets by R660 million.

He pointed to a number of synergies in relation to systems, products and branch networks. Fedsure's relative capital strength also makes it an attractive partner.

But the specific benefits have to be spelt out more clearly.

The motive and identity of the party attempting to block the Planet deal are disturbingly unclear. If it is blocked, will shareholders have anything of substance to turn to?

This week's advertisement urging Saambou shareholders to reject the Planet acquisition relied heavily on vague insinuations about the negative aspects of the deal.

No alternative scenario was put forward — there was a veiled suggestion of other possible offers for control.

Focus on home finance plan

B/Day 10/5/91

BRENT VON MELVILLE

(58)

THE recently announced low-cost housing financing scheme by UAL Merchant Bank and the Independent Development Trust (IDT) has attracted interest from lending institutions.

The new funding instrument is aimed at raising R500m from the private sector for low-cost housing. It will be run under the auspices of the IDT Finance Corporation (IDTFC), which will use IDC funds to acquire, through UAL, a portfolio of fixed interest rate securities.

These securities will be used as collateral for the cashflows due to institutional investors. UAL says over R120m has already been secured from several financial institutions and further funding will be obtained in the near future.

IDTFC CEO Frans Pretorius said there had been great interest in the scheme. The lending criteria were expected to be wrapped up by May 17 and the first loan made by the end of the month.

Interest had been shown by The Perm, the Urban Foundation Group Credit, the "Get Ahead" Foundation, Rural Advice Centre, Rural Foundation, FNB, NASASA, Standard Bank, and Kwazulu Finance Corporation. Individuals had also been interested.

Pieter Hougaard ... "we are working for ourselves".

Picture ROBERT BOTHA

Questions of identity in the battle for Saambou

58

B/Day 10/5/91

GRETA STEYN

THE big mystery in the Saambou takeover battle is the true identity of the hostile bidder, Trafalgar Portfolio Managers (TPM).

No one really believes that two former Finansbank merchant bankers, Pieter Hougaard and Johan Redelinghuys, are the sole force behind the bid. But Hougaard is emphatic that Trafalgar is no smokescreen.

"I know it sounds incredible, but we are working for ourselves. Senbank is providing advice and finance, but neither the Bankorp group nor anyone else is behind us," says Hougaard. They have already satisfied the authorities and the Saambou board that they can finance their proposed acquisition of 30% of Saambou at 180c a share.

Trafalgar has been around for about a year in corporate and project finance and investment banking. They have been involved in the Tomcor restructuring, the Octodec listing and a number of transactions Hougaard says cannot be disclosed. But until their first attempt to buy Saambou at 140c a share at the beginning of this year, few people had heard of them.

Saambou's new management is building its strategy against Trafalgar by portraying it as a "Johnny-come-lately". MD Johan Myburgh told reporters Trafalgar did not have enough capital resources to make a success of banking. He also speculated that Saambou's poor results would prompt Trafalgar to reduce its offer price to shareholders, especially as the market price had softened. He seemed to be holding thumbs that the share would fall so that the 140c valuation of the Fedsure transaction appeared to be less of a bargain. It has, however, stuck stubbornly at 178c.

"We want a capital-rich partner — hence our transaction with Fedsure," Myburgh said.

In terms of the deal, Fedsure subsidiary Fedlife gets an option to buy 30% of Saambou in return for an Eastern Cape leasing company, Planet Finance, valued at R55m.

The snag in Myburgh's argument is that Fedsure has made no pledge of putting any capital into Saambou. In fact, critics of the deal believe the transaction is too one-sided — Fedsure will be putting in too little and Saambou too much.

They say Fedsure can simply walk away from Saambou if it elects not to convert its debentures into share capital and can reap the benefits of a one-sided co-operation deal while it decides. The losers would be the minorities.

An analysis by an independent financial consultant on behalf of an anonymous shareholder says: "Saambou may be considered to be a captive of Fedlife." This was a reference to the security Saambou has to provide against its obligations to Fedlife — R300m in guarantees while Fedsure only has to put down R55m.

"As a result of the securities given by Saambou, its ability to raise finance in the future will be severely limited," says the report by consultants Sklar, De Villiers and Cohen.

The apparent one-sidedness of the agreement was one of the points raised by a group representing 30% shareholders opposing the Fedsure deal.

Other points raised included the lack of information. The effects on the earnings and net asset value per share — assuming Fedlife elects to convert its debentures into shares — "cannot be quantified", according to a circular to shareholders.

But Myburgh says the calculation is complicated because of the three-year period before the option expires, a view supported by JSE listings committee chairman Richard Connellan.

"At which point will Fedsure elect to convert? Too many assumptions on asset growth and return on assets would make such a calculation meaningless," says Myburgh.

Myburgh makes no secret of his suspicion that Trafalgar is an "asset-stripping" operation. Hougaard says he is taking a long-term view of Saambou, but "obviously there are surplus assets".

Hougaard makes no secret of his belief that Saambou has been mismanaged and that the new management does not present any change.

SAAMBOU

FM 10/5/91 (58)

MORE QUESTIONS THAN ANSWERS

It's common for a new MD to condemn his predecessor for results produced during that regime, but Saambou MD Johan Myburgh, appointed in February, has little option.

At pretax level, a turn-around of R53,3m produced a R24,1m loss for the year ended March 31. A perspective of the relative size of the decline is gained by comparing it with ordinary shareholders' funds of R190m.

According to Myburgh, the deterioration occurred because "management did not properly manage interest rate margins; poor staff productivity meant that internal costs were not controlled properly; and information systems were inadequate." He hastens to point out that the attributable loss of R28,3m includes a R28,1m provision, which may not all be lost; but even without this the group would barely be in the black.

Much of the provision was needed because black mortgages have soured in the current political climate. At end-March, of total advances of R3,1bn, mortgages accounted for about R2,6bn and black loans to roughly R120m, or about 4,5% of that.

When conditions in the townships are considered, along with enforced stoppages of rental/interest payments, looting and burning of newly developed houses and enforced evictions and victimisation of residents who actually dared to occupy new dwellings, the first question is: of a R120m book, is R28,1m enough? The second is: what are the chances of recovering assets and/or income forgone when things eventually settle down?

But important as these may be for the future, they become background factors in the light of the battle emerging for control. Trafalgar Corporate Finance has renewed its hostile attempt to win over minorities by raising its previous bid for 30% of the equity from 140c to 180c a share. The market is also under the impression that Fedsure is offering 140c a share for 30% of Saambou.

According to GM investments at Fedsure, Ian Fraser, as the *FM* went to press Trafalgar had not yet made any bid. All it had done, he says, is write to the Saambou board declaring its intention to bid.

Furthermore, says Fraser, Fedsure is not making a bid. It has sold to Saambou, subject to shareholders' approval, 50% of Planet Finance, a small EP financial operation that deals largely with individuals, for R55m. Payment is to be made by issuing Saambou debentures, convertible into ords any time in the next three years. If full conversion takes place, Fedlife will then own 30% of Saambou. It is in order to approve this transaction that a shareholders' meeting has been called for May 15.

Asked whether Fedsure is still interested after these results, Fraser confirms that its interest is based on a due diligence study completed some time ago; the results came as no surprise. He believes that Saambou is in a position to restore profitability quickly, particularly if major synergies emerge from the cross-interests.

This fits with Myburgh's comment. He wants to concentrate more on the individual than the institutional market by providing better personalised financial services. The aim is to increase HP and leasing business from the present 11% of total loans and take advantage of higher margins in that area.

Though risks are higher, says Myburgh, business is not as rate sensitive as in the bond market. There can be substantial compatibility with Fedlife in this and other respects.

Both Myburgh and Fraser see that Fedlife will able to assist with capital if needed in times of tight liquidity. Client bases could be shared and Fedlife's hardware could be a big help on the technology side.

Myburgh is putting Saambou through substantial reconstruction, urgently needed if it is to revert to profits in the near term. Not much progress will be evident in the first half's results, says Myburgh — there are still further write-offs to be made, contrary to the normal practice of writing off everything but the kitchen sink at the first available opportunity, to magnify the extent of subsequent recovery. But thereafter he is confident profitability will be restored.

His three-year target is a real return of 5% on capital employed, equivalent to a nominal 19%-20% after tax at current inflation rates.

Interesting as this may be, what should shareholders do if Trafalgar comes forward? MD Pieter Hougaard contends that Saambou is "a fundamentally good business with a strong core on the building society side. The branch structure presents good opportunities for niche marketing of other products."

Not much is known of Hougaard and his colleague Johan Redelinghuis, except that both have been in merchant banking for 10 years and are from Finansbank. If their offer of 180c comes through in cash, I have little doubt that, were I a minority shareholder, I'd take it.

In any other form I'd stay with Saambou — never forgetting the opportunity cost of holding Saambou shares against the potential of many others. *Gerald Hirshon*

58

harmful. On the contrary they widen the market, overcome temporary inequalities and meet counterparties' demand for assets or funds on highly competitive terms."

There was a rider: "The problem is rather that the money broker, lacking substantial capital, may cause his own and others' discomfiture if his plans go awry."

There is always a trade-off between efficiency and security. In recent years, supervisors have been preoccupied with stability. SA has been caught up in an international trend towards capital adequacy and capital convergence and this has inevitably flowed over into related non-banking activity.

Money brokers fell from grace as a result of new legislation governing banks and similar institutions that requires those who wish to lend and borrow to act as principals, not agents, recording the transactions on their balance sheets. This enables the Registrar to monitor the risk reflected on the asset side of the balance sheet and the liabilities on the other, and impose appropriate solvency and liquidity requirements.

As a result banks must hold appropriate reserves. To let brokers continue without the additional costs banks must incur runs counter to the "level playing fields philosophy." Their position, says a spokesman for the DTI office, "has not been finalised."

The additional pressure this places on the cost of borrowing and lending is the price of protecting the banking system; it is paid by shareholders in the shape of profits forgone and by consumers in higher interest rates and additional charges. Many may wonder whether it is worth it and whether the whole exercise does not run counter to the general policy of deregulation and encouraging competitive forces to determine the flow of funds. ■

DISINTERMEDIATION FM 10/5/91

SHADES OF GREY

58

Two separate issues arise from recent measures by banking supervisors to stop banks' money broking activities. The first is the confusion surrounding circulars from the Registrar of Deposit-Taking Institutions (DTI), declaring certain trading activities "undesirable practices." The second is whether in fact they *are* undesirable.

A circular dated April 17 set out a statement of principle, from which the market inferred that banks would not be allowed to trade in "written acknowledgments of debt" of a person or organisation not licensed under the DTI Act to take deposits from the public. But it transpired that the Registrar does not want to stop legitimate transactions in which banks act as principals, only those in which they act as agents (incurring no additional liabilities).

A second circular sent out to "address specific issues" failed to clarify the concept of "an acknowledgment of debt." Many bankers cannot bring themselves to believe that the Registrar intends to include bankers' acceptances and other paper such as promissory notes under this heading. "He surely wouldn't want to stifle the BA market like this," says one.

FM 10/5/91 58

Different impressions

Bankers' views were put at a routine money market meeting with the Bank last Thursday. They came away with different impressions of the authorities' response. Some (probably most) accept that "all acknowledgments of debt" means all. Others still hope for a reinterpretation to exempt instruments such as liquid bills and acceptances.

A parallel issue is that non-DTI money brokers may no longer pool funds but must place them on the day of receipt in individual accounts with a DTI. Money broking by non-DTIs has been a common practice, tolerated by the authorities.

Six years ago, it was described as both "normal and beneficial ... in a developed economy" by no less an authority than then Governor Gerhard de Kock. As a pioneer of the efficacy of markets in allocating resources, he saw the advantage of adding depth and breadth to the comparatively small domestic financial markets.

His report on monetary policy and the monetary system distinguished three types of activity in the "parallel market":

- ☐ Non-intermediation — borrowing without intermediation of banks;
- ☐ Disintermediation — replacing credit normally or previously extended through a bank by credit extended directly by primary lenders to ultimate borrowers; and
- ☐ Illegal banking.

Under "disintermediation," he said: "The money broker performs a useful timesaving and advisory function." On speculative activities, he said: "These are not in themselves

Continue —>

FM 10/5/91 (58) **FOX**

FINTECH

RUNNING AGAIN

David Redshaw's first job when he took over as chairman of Fintech in late 1989 was to turn the R5,9m loss into an operating profit. With the disposal of the Punch Line personal computer business taken care of, a turnaround had already taken place by the August 1990 interims — operating income for the first half was R11,3m.

The second-half result was a repeat performance. Trading income for the full year was a little more than double this, at R22,8m.

The main achievement of the second half has been a reduction in gearing to 30% from 144% a year ago, and from 98% at the interim. Redshaw says he is "allergic to debt," and ideally would like to eliminate it altogether. He adds, however, that Fintech is back in the market for new companies. If the group has the opportunity for "synergistic acquisitions" he will allow borrowings to increase, though only temporarily. Fintech was confident enough to declare a 20c dividend, though at a conservative cover of 4,2.

FINTECH FIRMS

Year to Feb	1990	1991
Turnover (Rm)	674	524
Operating income (Rm)	(5,9)	22,8
Attributable (Rm)	(21,0)	9,4
Earnings (c)	(188,4)	84,0
Dividends (c)	—	20,0

Redshaw says it is highly unlikely that Fintech will re-enter the retail personal computer market. Because of the disposal of Punch Line and a few peripheral businesses, turnover declined by 22%. But sales growth was resumed in the second half. Sales increased by 3% in the second half over the first half, and Redshaw expects at least a 10% growth in sales in the 1992 year.

Fintech is relying on the success of three product lines in particular — Xeratech's new range of low-volume copiers; NCR's new range of scaleable computers; and a range of telephone systems that are being brought in by the partnership between STC Business Communications and the French telecommunications group, Alcatel.

The pre-interest margin has remained at around 4,4% this year. It should increase now that Fintech concentrates on the high added value end of the business, principally in the corporate market.

Investors are showing some confidence in the Fintech turnaround. At current levels of 680c, more than double its 12-month low of 325c, Fintech's share is trading on a p:e of 8,1 and a dividend yield of 2,9%.

Redshaw says Fintech Informatics, formerly Punch Line, is expected to be taken off the boards when a suitable settlement can be made to minorities. It holds all Fintech's trading divisions other than NCR. It has inherited a particularly sick balance sheet from Punch Line, with an accumulated shareholders' deficit of R31,1m and preference share and interest-bearing funding of R98m. It produced attributable earnings of R3,2m, and EPS of 8,6c compared with a loss of 90c in 1990.

Stephen Cranston

BANKING FM 10/5/91

58

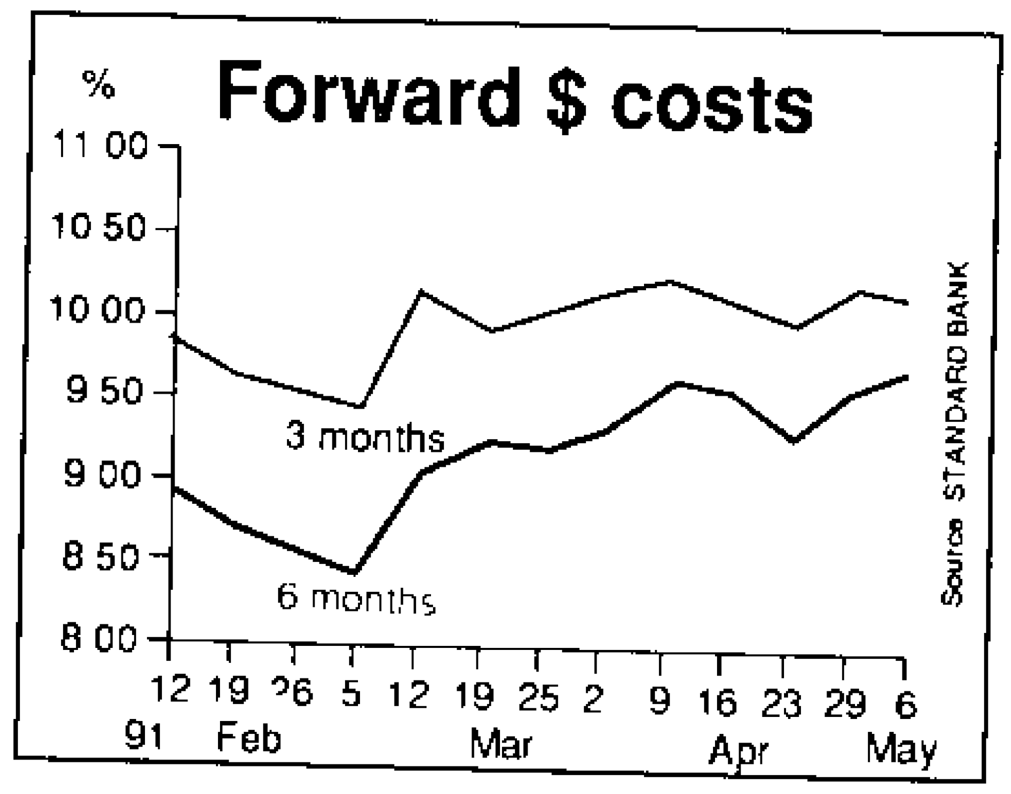
CONDUIT TO AFRICA

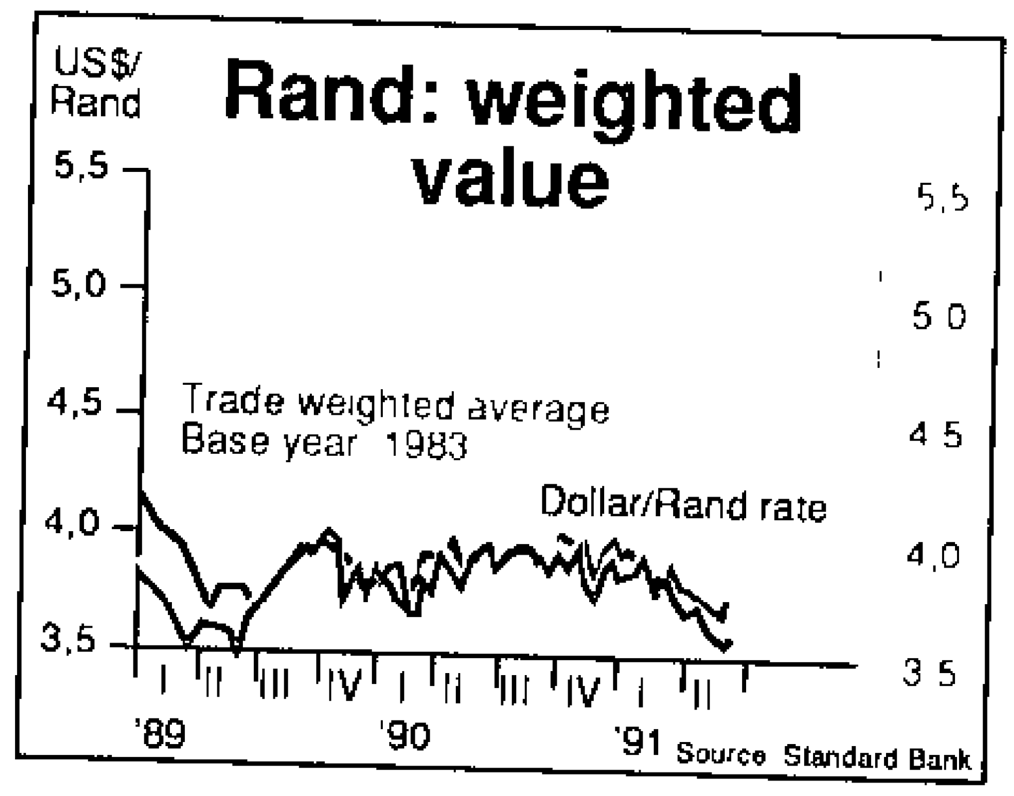
Banque Commerciale Zairoise, a Zairean bank with a Belgian parent, has opened a representative office in SA. Its main objective, says representative Willy du Bois, is to act as facilitator for SA businessmen wanting to make investments in the rest of Africa. He adds that this is the first time an African bank from outside SA has opened here.

Banque Commerciale Zairoise is registered in Kinshasa and has a network throughout Zaire. Its shareholders include Belgian bank Belgolaise (25%), the government of Zaire (25%) and the public (50%). Belgolaise in turn is a 53,4% subsidiary of Belgium's largest bank, Generale de Banque. Du Bois says that through Generale and its subsidiaries Banque Commerciale Zairoise has access to more than 30 countries.

Belgolaise concentrates on financing trade between Europe, SA and central Africa. Its strategy is to extend into other countries in Africa. It has subsidiaries in Burundi, Rwanda and Nigeria with European offices in

MARKET INDICATORS





RAND'S PRICE

May 6 1991

	R1 equals	One foreign unit equals (R)
SDR	**0,266**	**3,765**
	0,288	3,477
ECU	**0,304**	**3,287**
	0 309	3,237
UK £	**0,209**	**4,788**
	0,225	4,438
US $	**0,356**	**2,808**
	0,377	2,655
Canada $	**0,409**	**2,445**
	0,437	2,288
Switzerland Fr	**0,520**	**1,923**
	0,539	1,855
France Fr	**2,094**	**0,478**
	2,092	0,478
Germany DM	**0,618**	**1,618**
	0 622	1,608
Japan Yen	**49,136**	**0,020**
	59 420	0,017
Italy Lira	**457,895**	**0,002**
	456,700	0,002
Zimbabwe $	**1,068**	**0,936**
	0,908	1 101
Austria Schil	**4,345**	**0,230**
	4,380	0,228
Holland Guilder	**0,697**	**1,435**
	D 700	1,429
US $ value of SDR	1,314	**1,344**
US $ value of ECU	1,219	**1,187**
Financial Rand		
Cost per US $	4,095	**3,339**
Discount (%)	35,279	**15,730**

Year ago figures in light print
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved
The above rates are for guidance purposes only

FM 10/5/91

58

Brussels, Antwerp and London.

It has opened a representative office in SA because, according to Du Bois, substantial business is already transacted between Zaire, SA and Europe. "We chose SA above other African countries because of the size of the economy and because it is the financial centre of the continent," he says.

As a representative office, Banque Commerciale Zairoise will not be able to do direct transactions with clients nor take deposits. ■

Govt Times 10/5/91 (58)

Bank chiefs into Africa

ABIDJAN, Ivory Coast. — South African bankers discreetly attended the African Development Bank's annual meeting this week for the first time, marking a further step away from their world political isolation, bank officials said yesterday.

"This is no longer an extraordinary event," ADB president Mr Babacar N'Diaye told a news conference where he confirmed the bank had invited government bankers and a representative of the ANC.

"The Development Bank of South Africa wanted to be present at this meeting," he told reporters at the end of the three-day meeting, at which international creditors tried to patch up a quarrel over lending plans.

The South Africans, identified by a meeting newsletter as Mr André la Grange of the government-owned Development Bank of South Africa and his colleague, Mr Salu Molapo, appeared on no official guest lists.

The landmark decision to invite them was made without consulting the Organisation of African Unity (OAU), which still officially regards Pretoria as a pariah.

Mr Nelson Mandela has urged African nations to maintain full sanctions against South Africa until apartheid is fully dismantled. However, black African states beyond the so-called frontline states have steadily increased business links.

Most of the ADB meeting was taken up with a debate over the merits of a capital increase to finance loans of about about R35 billion over five years.

"A lot of African countries are already in arrears (on capital subscriptions)," noted British acting governor Mr Peter Freeman. "The amounts of arrears aren't big ... but it's a long list of countries."

The bank group's annual report showed 32 African countries were behind on capital subscriptions, with the largest amounts owed by Libya and Zaire.

Divisions between the bank's 51 African members and 25 non-regional states — whose financial backing underpins the bank's operation — had been evident throughout the meeting here.

Creditors worried that a surge of loans over the past five years had overstretched the bank. They feared that continued non-concessional lending to debt-burdened poor nations was building future problems both for the bank and its borrowers.

Africans — backed by some European creditor nations — replied that a significant increase in future concessional financing had been blocked by donors at negotiations over a two-year funding package for the bank's soft loan arm. — Sapa-Reuter

PENSIONS FM 10/5/91 (58)

CHANGES COMING

Two possible structures for a compulsory national pension scheme have been presented to the Institute of Life & Pension Advisers (Ilpa). Both would offer minimal benefits.

They were outlined at Ilpa's annual convention last week in Durban by Sage Life executive director Colin Tomsett. He agreed that, in theory, the present system could continue, subject only to compulsory membership and regulations to preserve pensions, but believes this is unlikely. More probable, he says, is nationalisation of the industry or a State scheme; alternatively, State-regulated schemes "for the common good of all."

The ANC and Cosatu want a compulsory

continue

national retirement scheme. The Mouton Committee is also investigating the feasibility of this; its steering committee is again considering the implications this week.

Tomsett says nationalisation would mean that retirement benefits would be low and the same for all. The State would set post-retirement increases. There would be no early withdrawal benefits and this would preserve pension benefits.

The scheme could be either funded (like the current, controversial, scheme for government employees) or on the pay-as-you-go system common for State schemes abroad. Tomsett would expect such a scheme to be centrally administered by the State.

He notes that pay-as-you-go schemes can run into trouble when demographics change. When birth rates drop sharply in Europe a lower base of economically active people is eventually left supporting the pensions of a large ageing population.

Also, he cautions, there is a temptation (to which at least one homeland has apparently succumbed) for a government to tap pension fund cash flow to meet urgent financial needs. In due course the shortfall has to be met from increased tax.

The other structure would see employee benefit schemes managed and administered in the private sector but regulated by the State to ensure that all actively employed have benefits for old age or disability and for their dependants in the event of death.

There would still have to be some form of State pension in the early years of this system to cater, among other things, for people who have not been in the new structure long enough to accumulate benefits.

Variable levels

Benefit levels would be variable, negotiated between employers and workers, subject to a minimum set by the State, which would probably also set minimum post-retirement increases. Again, membership would be compulsory, with no withdrawal benefits.

Tomsett envisages investment staying in the private sector but with a return to some form of government-prescribed asset, for housing, education and other social needs.

The regulated structure offers flexibility. It would still enable employers to offer competitive packages, including employee benefits. Trade unions, which regard retirement funds as part of employee packages, would continue to represent members' interests.

But neither structure would satisfy advocates of provident funds, where withdrawal benefits come in a lump sum. Whether either structure will be seen as the solution depends, probably, on the committee's recommendations and whether a scheme can be feasibly funded.

Collections from the informal sector will be problematic. It would still be necessary to provide social benefits for those who have not worked, either formally or informally. And it will be necessary to plan for disability pensions on a scale never contemplated until now, because of the looming Aids explosion.

It's significant that an influential figure in the private pensions industry can now publicly discuss nationalisation without any expression of revulsion. Next week, the debate moves to Cape Town, to the convention of the Pensions Institute. Ironically, a keynote speech there will be about *deregulation* of pensions in the UK. ■

LIBERTY LIFE FM 10/5/91 (58)

STEADY GROWTH RECORD

Activities: *Long-term assurance and pension fund management; holds strategic investments in SA and abroad.*
Control: *Top holding company is Liblife Controlling Corp (Pty), held equally by Liberty Investors and Standard Bank Investment Corp.*
Chairman: *D Gordon; Joint MDs: M Winterton; P D Wharton-Hood.*
Capital structure: *138,7m ords. Market capitalisation: R4,48bn.*
Share market: *Price: 3 225c. Yields: 2,7% on dividend; 3,2% on earnings; p:e ratio, 31,6; cover, 1,2. 12-month high, 3 100c; low, 2 000c. Trading volume last quarter, 2,3m shares.*

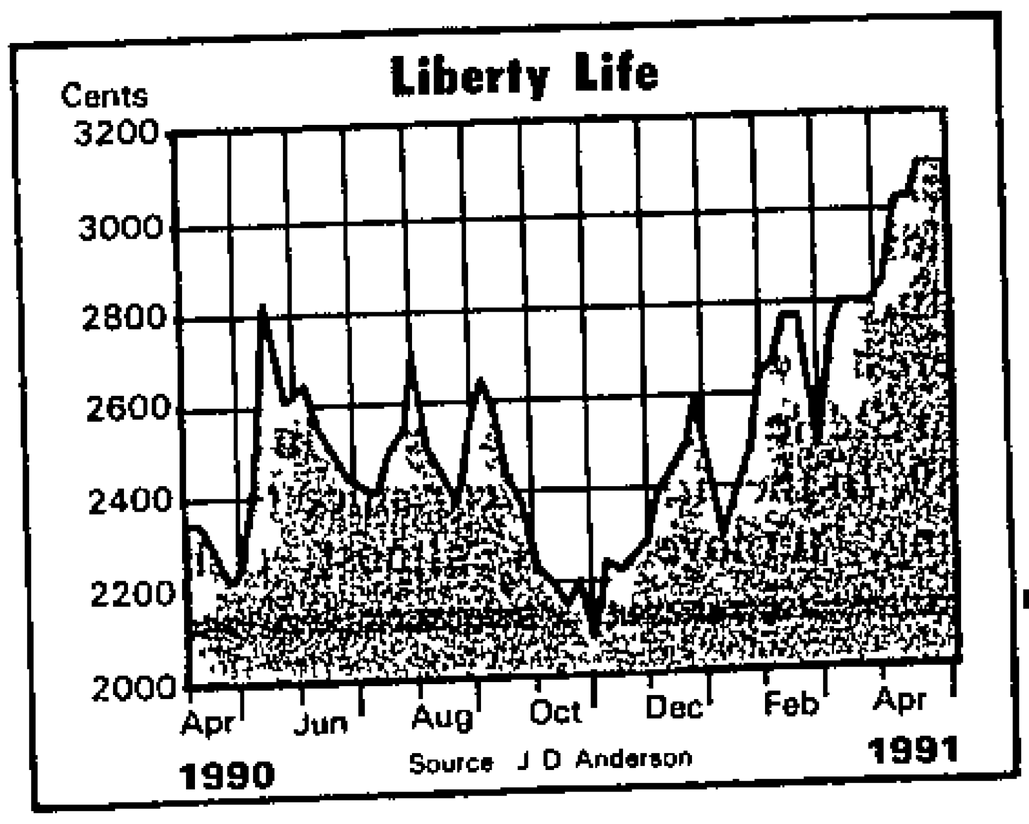
Year to Dec	'87	'88	'89	'90
Total assets (Rbn)	11,39	14,80	19,20	21,57
Net premium and annuity income (Rbn)	1,42	1,46	1,78	1,93
Investment income (Rbn)	0,73	0,89	1,19	1,44
Total income (Rbn)	2,16	2,37	3,0	3,4
Life funds (Rbn)	8,86	10,99	15,05	16,60
Investments (Rbn)	10,86	14,18	18,29	20,66
Net taxed surplus (c)	58,9	69,5	84,7	102,1
Dividends (c)	41,9	50,5	63,0	86,0*
Net worth (R)	86,3	106,8	117,4	147,0

* Excludes special dividend of 50c.

Liberty's consistent growth in earnings and dividend over about two decades, coupled with a high-quality portfolio of investments in SA and abroad, is enough to make the group's various shares look attractive as defensive growth stocks — particularly when so many other companies are being hammered by the domestic recession or poor export prices.

Apart from those considerations, there have been bonanzas over the past year such as the dividend distribution in specie of shares in the foreign investment arm, First International Trust (FIT), and the recent speculation relating to Standard Bank Investment Corp (SBIC).

Against this background, the shares have continued to strengthen since the release of the year-end results in mid-March. The recovery since the 12-month lows were reached last year has been impressive: Liberty Life's price is up by 61%, Liberty Holdings by 54% and Libvest (the top pyramid company) by 72%; FIT, restrained by a stronger financial rand and by sentiment which, for the present, has swung against rand hedge stocks, is



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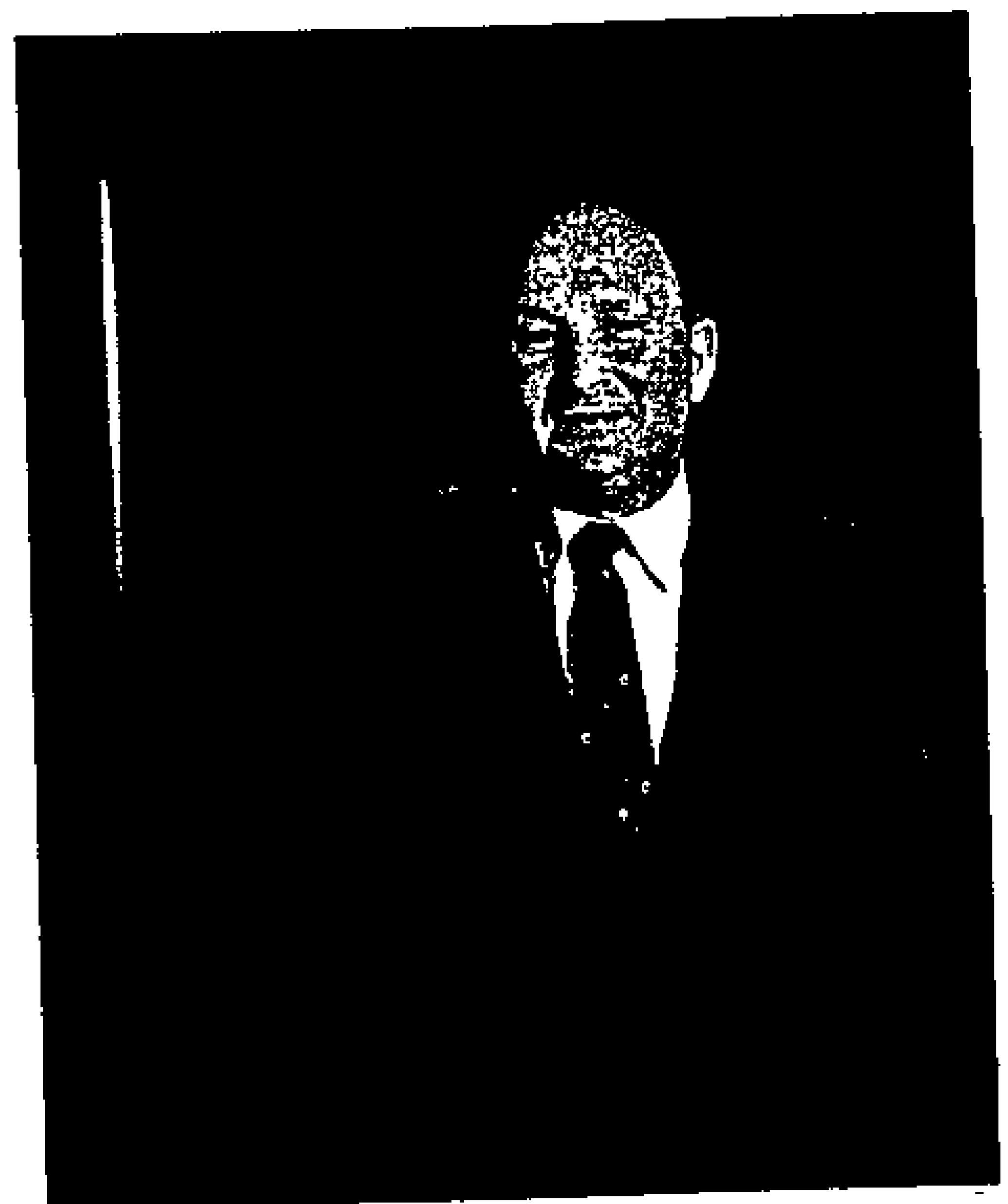
Liberty's Gordon ... *an unbroken pattern*

up only 6,5%.

There is obviously always some risk in assuming that any track record will be maintained, but Liberty's long-term performance for shareholders has been excellent. Chairman Donald Gordon points out that since Liberty Holdings was first listed in December 1968, it has maintained each year an unbroken pattern of increases in dividends per ordinary share averaging over 25% a year. Liberty Life's dividend was increased annually during the Eighties at rates varying between 19,7% and last year's 36,5%.

These are just the normal dividends. In addition, in 1982 there was a special dividend of 2,4c a share; in 1989, a special cash dividend of 96c a share in lieu of bonus capitalisation shares; and, in 1990, a special dividend of 50c a share. Gordon has said that Liberty is no more in a position to avoid new business strain than any other life company — though it can cushion the effects through its financial and investment strategies — but that evidently has had little adverse effect on income for shareholders.

Certainly, over the past five years, investment income has been the most important source of the group's growth. In the period from 1985 to 1990, investment income grew at an average annual rate of 34%; that compares with an average annual rate of 24% for net premium income and annuity considerations. At the same time, expenses such as commissions were growing at an average annual rate of 29%, and management expenses at an average rate of 36%.

That underlines the importance of the investment portfolio. Major holdings include about 33% of the leading banking group, SBIC; 33% of Premier Group; 34% of Bevcon, which holds a 34% and effective controlling interest in SA Breweries (in which Liberty also has a direct 6%); 20% of GFSA Holdings, which holds 43% of GFSA; and 29% of Placor, which has 49,7% of Plate Glass. On the international front, FIT has 49,3% of the UK holding company TransAtlantic Holdings, which in turn holds 27,7% of Sun Life Plc and 79,8% of Capital & Counties Plc.

Some of the investments may be producing little or no income growth at present but the portfolio contains a high-quality spread of equities and properties. Included in the asset base are substantial financial and property interests abroad, so the shares have definite attractions for investors who want a currency hedge. Capital & Counties Plc last year opened the Thurrock Lakeside regional shopping centre, and other such projects are moving closer to completion.

Also, there are always speculative aspects in the background which may come to the fore at some stage and help to ginger up the share price. Among these is the relationship with Sun Life. This has recently been taking a lower profile, but there remains the question of whether Gordon will eventually seek a larger stake in the UK assurer.

More recently, there has been the publicity surrounding Liberty's relationship with SBIC, which could determine the control structure of the Liberty Group should Gordon retire or die (*Leaders* April 26). The timing of Gordon's departure is in any event unknown, and it could have a negative effect on the way the market rates the shares — but if there is ever any battle for control that could be bullish at the time. It may, however, be wise to assume that Gordon will succeed in his wish to make Liberty's relationship with SBIC secure against any outside interference.

It may be too much to hope for further special dividends or scrip distributions soon — tax considerations presumably played a part in those of last year — but these have nonetheless been a part of the group's record. Overall, while the group's shares have been pushed to demanding levels, and yields are thin, these stocks remain attractive as long-term investments. Liberty Holdings and Libvest are probably the best points of entry.

Andrew McNulty

MSAULI FM 10/5/91

CAPEX DRAG

Msauli's earnings slumped last year, thanks to a combination of mining production problems and stagnant commodity prices. And,

House prices rise

Star 1/5/91

THE average price of a medium-sized house increased by 13 percent to about R111 300 during the first quarter of 1991, the United says in its latest Quarterly Housing Review.

The United notes that the price of larger houses rose by nine percent to about R155 000. The price of smaller homes rose by 16 percent to around R94 750.

"With the economic downswing expected to persist throughout the greater part of 1991 and with the authorities intent on keeping interest rates positive in real terms by a substantial margin, the housing market is likely to remain under pressure," the United says.

Given the comparative scarcity of available accommodation, house prices are expected to increase by about 12 per cent during 1991.— Sapa.

Insurance costs soar

Star 11/5/91 (S8)

Money Matters

MAGNUS HEYSTEK

AN unpleasant spin-off of the current crime wave is sharply rising insurance costs.

According to insurance experts the cost of short-term insurance has risen to such an extent that it is now almost a luxury that few can afford.

Short-term insurance premiums have risen by as much as 690 percent on average from 1980 to 1990, significantly faster than the inflation rate over the same period.

Expressed as a percentage of disposable income, insurance has risen from 1,9 percent to just under six percent last year at a time when disposable income has been under pressure itself from rising costs and fiscal drag.

Last year about 60 000 motor cars were stolen and this is set to increase to between 80 000 and 90 000 this year.

But the good news at least, is that the police actually recover about half of all stolen vehicles.

As far as motor insurance is concerned, only one in four of vehicle owners is insured. The rest have no insurance at all or at best have balance-of-third-party insurance.

Fact is, most people, except the very wealthy or those who have company cars cannot afford to be comprehensively insured, and are thus greatly exposed financially to burglary, vehicle theft and motor accidents.

Other factors

Apart from rising crime, other factors that have contributed to this sorry state of affairs includes inflation itself, the sharp drop in the value of the rand on international markets which leads to higher replacement costs and an increase in fraudulent claims.

According to a leading insurance expert about seven percent of all insurance claims submitted are fradulent, and this figure increases during economic downturns. This adds to the cost of premiums to the honest policy-owners.

But Joe Public is not altogether blameless in this matter. A great number of losses are largely the cause of utter carelessness.

Cars and houses are left unlocked. In some cases thieves (when they get caught) will report that keys were in the ignition of the cars; while many a house is burgled because doors and windows are left unlocked.

This contributes a great deal to casual crime. The temptation is just too great in many instances.

Greater diligence and extra care taken of personal goods can reduce premiums, say insurance experts. Policy holders who don't submit claims and keep their non-claim bonuses intact, can actually reduce their insurance costs by up to 40 percent over a three year-period.

Other steps to reduce insurance costs include fitting burglar bars and alarms, introducing a neighbourhood watch system, moving into a cluster-home or even a retirement home. All these factors act as deterrents and help to keep premiums down.

Claims checklist

It's also worth mentioning that homeowners, who happen to be burgled, can facilitate the claims procedure greatly using the following checklist:

- Keep receipts of all expensive purchases like hi-fi equipment, video recorders, cameras and all other items high on the list of would-be-thieves.
- Have valuable jewellery and antiques valued by an independant valuer. Send a copy to the insurance company and keep the original in a safe place.

It's a good idea to do this every five years.

- Take photographs of valuable items which make it easy to prove that you actually had them in the first place.
- Even if you're not insured, write your name and address on all your goods with a marker-pen. The police quite often catch thieves but then have no idea how to trace the owners.
- Read the fine print on your insurance policy. Make sure you understand the wording. This will reduce any misunderstanding.

Some people don't claim because they don't realise that they can.

If you don't understand the wording of a policy document, which is often happens, don't be afraid to ask.

World Bank may give loans

Millions set to pour in to SA

ARGUS 11/5/91

MAGGIE ROWLEY
Business Staff

MILLIONS of rands of World Bank loans are set to pour into South Africa to assist black businesses.

This follows a meeting last week between officials of the United Nations development programme, the Africa Project Facility and about 50 black Cape businessmen.

Mr Desmond Crowie of Philippi-based Desmond Crowie & Sons Construction, who organised the meeting, said the World Bank was set to open an office in either Cape Town or Johannesburg in the near future to administer funding.

"They are looking to providing loans of between R500 000 and R5million to black businessmen but will consider lower amounts if warranted.

"However they are only interested in businessmen who have a proven track record and a viable concern. They are more interested in aiding expansion of existing businesses than starting new businesses from scratch," he said.

Mr Crowie who was approached by the World Bank/International Finance Corporation in Washington DC to set up last week's meeting, said the World Bank was interested in aiding black businesses "to help level the playing field so we can compete in an open market in a new South Africa".

"Black businesses definitely need offshore funding due to the high interest rates of recent years and the continued hesitancy of financial institutions to provide funding for black businesses."

He said officials had indicated that loans would be provided at interest rates of between six and 10 percent.

"They are looking to establishing joint ventures with local businesses and will remain involved in the administration of the companies on a mentor basis until such time as the loan is paid off," he said.

He said he was confident the World Bank would "move shortly" to establish a South African office in spite of remaining sanctions against South Africa.

"They appear confident that the move away from an apartheid society is irreversible and the sooner they start providing funding the better for all concerned.

"Developments over the next six months will be critical but we are confident they will have established a South African office within a year."

R8bn grouping rests with Saambou voters

S Times (Bus Times) (58) 2/5/91

By IAN SMITH and DIRK TIEMANN

JAN ERASMUS: Stepping stone to becoming full insurer

UNCERTAINTY about the outcome of Saambou shareholders' vote on the deal to give Fedsure a 30% stake in the company clouds the prospects for the formation of an independent financial services group with assets of R8-billion.

Approval of Fedsure's R55-million plan to sell its Eastern Cape Planet Finance hire-purchase company to Saambou in exchange for 39-million convertible debentures would clear the decks for a loose-knit grouping of Saambou, Fedsure and SegeAlliance, whose major subsidiary is Prestasi Financial Services.

The deal would give Saambou access to capital resources and big benefits could flow from the sale of all three groups' services to much larger client bases.

Goodwill

It would also scuttle an apparently hostile bid by Trafalgar Portfolio Managers, which intends to offer 180c a share for 30% of Saambou investors' holdings.

The Planet offer was criticised by unnamed Saambou shareholders this week because, they claimed, it favoured Fedsure.

But both Fedsure and Saambou have strongly defended the Planet deal.

There are about 20 000 shareholders in Saambou, with about 30 institutions, nominees and individuals holding 50%.

Fedsure and Saambou say Planet is to be sold at net asset value, with no provision for goodwill, and it should increase Saambou's profits by R1-million immediately.

A Fedsure spokesman says: "It is not true that this is a one-sided deal.

JOHAN MYBURGH: We need strong financial support

"Planet will have the support of a deposit-taking institution as a parent. Fedlife is committed to giving Planet at least 50% of any funds it needs for development."

He says the price is a bargain compared with offers from other Planet suitors.

Saambou managing director Johan Myburgh says the group needs strong financial support. The envisaged financial services grouping would bring major benefits in synergy and access to a larger client base.

"The deal with Fedsure was the beginning of an association."

Mr Myburgh says Saambou and its new allies could fill a niche by concentrating on financial packages for salary and wage earners

"It is difficult for banks to deal with all segments. We would be able to provide a tailor-made service for an important market sector."

Mr Myburgh says Santambank did well operating in the same sector until the restructuring of Bankorp.

The trend for the big banks and building societies to concentrate on the international capital markets and corporate clients would leave a opening for such a group.

Principals

SegeAlliance hopes to use Saambou as a stepping stone to becoming a full-fledged insurer.

It is believed that proposals about the deal will be presented to Saambou shareholders after the battle for control is over.

The deal is expected to involve the placing of Prestasi's short-term insurance business with Saambou's National Assurers, broking remaining with Prestasi. Saambou has two small long- and short-term insurance companies with relatively small premium income to act as the principals.

Prestasi uses Aegis and SA Eagle as underwriters which helped it to weather the AA Mutual crash in 1986 and it is unlikely they will be abandoned. Equity participation in the two small companies might be an option

Prestasi chief executive Jan Erasmus will not comment on such a deal, saying the time is not right

SegeAlliance subsidiary New South African Investment Company (NSA) has about 10% of Saambou and probably does not have enough cash to buy control.

The relationship between SegeAlliance and Saambou would be based on what the Prestasi Financial Services Network could bring to the party.

Profit

Saambou would have access to Prestasi's growing client base. SegeAlliance claims it has the most efficient computer system in the business.

Prestasi expects gross profit of between R20-million and R30-million from financial services this year. They cover personal insurance, hire purchase, life assurance and self-insurance plans.

The view in the market is that Saambou's weak results this week — R4-million operating profit on a book of R3-billion — belie a solid core on which to build.

A Fedsure spokesman says the group would look to convert its debentures into Saambou shares soon.

"But it is overstating the position to say that Saambou would be a captive if we held 30%.

"What shareholders should be asking is what happens to the 70% of their holding if Trafalgar's bid succeeds. Can Trafalgar bring the same management and other skills to Saambou that we can offer?"

Saambou says in a statement to shareholders that synergy and benefits of an association with Fedsure are already apparent.

Vehicle insurance 'could rise by 65%'

GERALD REILLY (58)

MOTOR insurance premiums could increase by 65% by the year-end, says Compuquote MD David Hersch.

In an interview from Cape Town at the weekend, he said motor insurance premiums increased by 52% last year.

Similar conditions applied this year, with continued pressures from inflation and soaring claims, particularly in the Transvaal. Bday 13/5/91

Therefore the motor premium curve would follow the same pattern as last year.

However, during the last quarter of the year, an additional 12% would be added to premiums because of VAT.

This would raise the expected premium hike to about 60%.

Hersch said VAT would mean more administrative work for brokers and agents and force them to absorb the extra costs or pass them on in the form of service fees.

Brokers' margins were already low and it was more likely that they would pass the added costs on, probably adding about another 5% to premiums.

Against this background, the vehicle owner would opt more and more for limited cover — balance of third party and theft.

The higher insurance costs might also force buyers to opt for less expensive models. This could result in an ageing motor fleet with less roadworthiness and a resultant increase in accidents.

"Increases could therefore easily be in the region of 65% at the end of the year".

Another cost factor loading premiums was steadily increasing excesses. Motorists were not only paying higher premiums, but were also expected to bear a higher proportion of the losses involved.

HAROLD FRIDJHON in the Money Markets

(58)

Notorious Bank circulars are shelved in latest BA bungle

B/Day 13/3/91

RESERVE Bank circulars numbers 9 and 10 are now in the freezer because they are *ultra vires*; the Bank failed to gazette the relevant regulations. Just another *snafu* in the BA bungle.

During this period of enforced moratorium, it is understood that the Reserve Bank and the deposit-taking institutions (they are no longer banks) are going to have some friendly get-togethers to iron out some of the anomalies.

All the brouhaha over BAs need never have been if the friendly get-togethers had taken place before the regulations had been drafted and the Bank's regulatory officials had been inducted into the realities of banking and corporate financing. That's not the stuff which can be picked up from casual lectures; it is the difference between practice and theory.

At the outset it must be stated that the Reserve Bank is acting very properly trying to bring on to balance sheet the full extent of bank exposure, even to the extent of eliminating the word "contingent" from contingent liabilities. A sound banking system is a cornerstone of a sound economy and banks should be compelled to make full and complete disclosures in their annual reports.

But when striving to "level out the playing field" — meaningless cliche — the Reserve Bank must be wary about introducing embolisms (clots) which might block the financial arteries. This could be detrimental to the health — and wealth — of the nation.

The circulation of instruments of debt is the lifeblood of commerce. The authorities are patently aware of this, otherwise they would not have given tacit approval to the proposal to introduce a commercial paper market into the financial system. This would open up further means of mobilising capital, of putting assets to work by providing additional sources of liquidity to finance business — just as BAs, and particularly non-liquid BAs, have done for years.

But if additional reserve requirements are pinned to BAs, these will be built into the rates, as we saw in the spread of BA rates a week or so ago. And if the reserve requirements are to be passed on when a deposit-taking institution sells BAs to a similar institution, but not when a BA is sold to a non-deposit-taking institution, the result surely will be a two-tier BA market, particularly when the BA is sold into a secondary market.

Surely most banks are holding a sufficiency of "risk" capital to cover their outstanding liabilities as reported in their monthly returns to the Bank? Why then mulct them with more? This can only lead to non-deposit-taking institutions becoming involved in trade credit, bypassing the supervised banking system.

Saambou battle hots up as deadline nears

(58)

B Day 13/5/91.

GRETA STEYN

THE war of words over Saambou intensified at the weekend with the deadline for the handing in of proxies for Wednesday's crucial shareholder meeting expiring at 2pm today.

Fedsure issued a strongly-worded statement defending its deal with Saambou, which has to be approved at Wednesday's meeting, and attacking Trafalgar Portfolio Managers' bid to buy 30% of Saambou.

Fedsure Group Investments GM Ian Fraser said shareholders should be asking themselves what would happen to the remaining 70% of their shares should Trafalgar make a successful bid.

"Will Trafalgar be able to offer Saambou the same management and expert skills that we can offer?

"At this stage Trafalgar and its partners have made a lot of noise, but we have not seen any definite proposals for the long-term future of a major financial institution. Shareholders are urged to think of their long-term position."

He suggested that Trafalgar was a front for "disguised parties" who wanted to do away with parts of Saambou.

Responding to criticism last week that Fedsure had not made any commitment to provide Saambou with capital, he said: "We believe it is unreasonable to expect Fedlife to now have to pay for putting our expertise into Saambou."

But critics of the deal claim Fedsure subsidiary Fedlife could end up indirectly controlling Saambou without having to convert its debentures into shares. In terms of the deal, Fedsure receives convertible debentures which give it an option to buy 30% of Saambou in return for an Eastern Cape leasing company, Planet Finance.

Trafalgar MD Pieter Hougaard said his firm had taken a long-term view of Saambou and although certain assets could

□ To Page 2

Saambou

B Day 13/5/91.

(58)

□ From Page 1

be regarded as "surplus", fears that Trafalgar was planning to asset-strip Saambou were unfounded. He criticised Saambou's venture into properties through Saampro and also questioned whether new MD Johan Myburgh's plans to move into the highly competitive car financing market would pay long-term dividends.

The main argument of those opposing the deal say it is one-sided. An independent financial consultant acting for a small shareholder, Sklar De Villiers & Cohen, emphasised that "the security being given to Saambou was excessive; and amounted to Saambou becoming a captive of Fedlife." This was because Saambou had to cede and pledge to Fedlife, among others, the total issued share capital of Saambou Bank and 51% of Saampro.

□ MARCIA KLEIN reports that advertising agency Saatchi & Saatchi Klerck & Barrett has terminated its Saambou account.

Saatchi media director Gordon Muller said that management had come to the conclusion "that the direction in which Saambou is moving is no longer compatible with the objectives of this company".

He said the decision was made by the agency's board after "painful deliberation", as Saatchi's association with Saambou had lasted for 20 years.

Deadline for shareholders to decide Saambou's future

Own Correspondent

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(58) CT 13/5/91

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Credit Guarantee Insurance awarded a high rating

BDay 14/5/91. (58)

ROBERT GENTLE

CREDIT Guarantee Insurance Corporation (CGIC), which specialises in insuring credit risk borne by companies in their business transactions, has been awarded an insurance claims paying rating of aaby independent agency Republic Ratings.

Republic director Dave King said aa and aaa-rated insurance companies comprised what was generally regarded as "high grade companies".

Explaining the rationale for the high rating, he said CGIC dominated a highly specialised niche within the short-term insurance industry. Its risk was well spread and reinsurance arrangements were diversified among outstanding counter-parties and the management and internal control environment were considered excellent.

"The company's underwriting standards and risk management mechanisms are very conservative," King said. "The balance sheet is soundly structured and the results have shown steady gains over the last five years."

CGIC had an insured turnover of R18,5bn in the 1990 financial year. Net income after taxation was R7,7m, an increase of 33% on the previous year.

enormous task to go through the questions thoroughly and reply thereto.

†Mr P A S MOPP: Mr Chairman, may I address the Chair in this regard? The hon member for Bethelsdorp is in his constituency with leave.

HOUSE OF ASSEMBLY

58

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

South African banks: safe cover

246. Mr L F STOFBERG asked the Minister of Finance:†

(1) What percentage of liquid assets in proportion to total liabilities is considered by his Department to be safe cover for South African banks;

(2) whether his Department intervenes when this percentage appears to be unfavourable; if not, why not; if so, at what stage;

(3) whether his Department protects the public by supporting banks financially when problems arise as a result of recessionary circumstances; if so, what amount was made available for this purpose during the latest specified period of 12 months for which information is available; if not, why not;

(4) whether his Department is considering protecting the public in the above-mentioned way in future; if so, what minimum amount will be made available for this purpose?

B646E

The MINISTER OF FINANCE:

(1) Article 72(1) of the Deposit Taking Institutions Act, 1990, stipulates that regulations (for which the approval of the Minister of Finance is necessary), may prescribe liquid assets equal to a maximum of 20% of a deposit taking institution's various categories of liabilities. The liquid asset requirement is currently 20% for deposit taking institutions' short-term liabilities, and this figure can be taken as an indication of the level of protection that the Registrar of Deposit Taking Institutions regards as relatively safe.

Liquid assets presently fulfil a business management function and are no longer applied for monetary policy objectives (as was previously the case in terms of the Bank Act, 1965, as amended).

It should be added that capital requirements for deposit taking institutions, which is related to their asset risk profile, rather than the liquid asset requirement, is regarded as the primary solvency requirement.

(2) The bank supervisory function is carried out by the Registrar of Deposit Taking Institutions, who has the legal authority to take action in those instances where the prescribed liquid asset requirement is not adhered to. Such action, which is taken immediately if liquidity requirements are not met, is determined strictly by market factors, the circumstances of the institution involved and the temporary or permanent nature of liquidity problems. The Registrar is also empowered, in special circumstances, to permit a deposit taking institution to encumber its liquid assets and, temporarily to maintain less in liquid assets than prescribed.

A deposit taking institution not complying with the liquid asset requirement, which does not necessarily imply that it is experiencing liquidity or solvency problems, will have to explain this and will be instructed to rectify the matter. It should however be emphasised that, by means of the new statutory returns, the liquidity position of all banks is closely monitored in order to ensure that timely and appropriate corrective action is taken.

(3) As with all other private-sector institutions in the South African economy, banks are subject to the discipline imposed by market forces. Neither the Department of Finance nor the South African Reserve Bank can therefore legally bind itself to protect banks in cases of poor management or in times of recession. This would only lead to an inefficient banking system.

In terms of the Deposit Taking Institutions Act, 1990, the responsibilities of the Office of the Registrar of Deposit Taking Institutions (which has fallen under the Reserve Bank since 1987) are to monitor risk management and regulate the banking sector accordingly. The decisions of the Registrar of Deposit Taking Institutions are thus often based on criteria (eg solvency) other than those used in monetary policy decisions of the Reserve Bank.

Continued public confidence in the South African banking sector is, however, regarded as very important and in order to maintain this confidence, the Reserve Bank acts as lender of last resort. This role forms part of the Reserve Bank's primary objectives, namely the pursuit of monetary stability in South Africa, and is not part of the Registrar's responsibilities. Maintaining monetary stability involves steps taken by the Reserve Bank to ensure that temporary liquidity problems experienced by banks are bridged and do not lead to a complete lack of confidence in all banks. Assistance to banks in this way does not, therefore, form part of the budget of the Department of Finance.

(4) The Department of Finance is not planning to guarantee depositors against possible losses at deposit taking institutions

Black State school pupils: *per capita* expenditure

319. Mr K M ANDREW asked the Minister of Education and Training:

What was the *per capita* expenditure, (a) including and (b) excluding expenditure of a capital nature, on Black school pupils at State (i) primary and (ii) secondary schools in the 1989-90 and 1990-91 financial years, respectively?

B833E

The MINISTER OF EDUCATION AND TRAINING:

		1989-90	***1990-91*
(a)	(i)	R730,74	R777,73
	(ii)	R1 409,83	R1 560,47
(b)	(i)	R669,02	R715 R715,40
	(ii)	R1 170,21	R1 466,24

**Budgeted amount.

The figures are for all schools except private schools.

Mandela High School/offices of Department: teachers employed

329. Mr J VAN ECK asked the Minister of Education and Training:

(1) How many teachers who had been employed at the Dr Nelson R Mandela High School in Crossroads and had subsequently left the school, were as at 8 April 1991 employed at the offices of his Department in Cape Town;

(2) whether (a) the salaries of such teachers are debited against the account of the school and (b) these teachers are still considered to be part of the teacher complement of the school, if so, why in each case;

(3) whether any teachers at this school were being paid so-called territorial allowances as at 8 April 1991; if so, (a) (i) how many (aa) White and (bb) Black teachers are involved and (ii) why are they being paid this allowance in each case and (b) what is the amount of the allowance received by a teacher;

(4) whether this allowance is paid monthly; if not, on what basis is it paid?

B842E

The MINISTER OF EDUCATION AND TRAINING:

(1) One.

(2) (a) Yes.

(b) Yes

The teacher did not vacate his post out of his own accord and until such time as he can be stationed elsewhere, he remains employed in the post which he occupies on a permanent basis.

(3) No.

(4) Falls away.

HOUSE OF DELEGATES

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QUESTIONS

†Indicates translated version.

For written reply:

Own Affairs:

Subsidised school buses: number of pupils transported

28 Mr M RAJAB asked the Minister of Education and Culture:

(1) (a) How many pupils attending schools falling under his Department were transported daily in subsidised school buses, and (b) what was the total net annual cost of such transport, in each province in 1989 and 1990, respectively;

(2) what is his Department's policy regarding the transportation of pupils?

D121E

The MINISTER OF EDUCATION AND CULTURE:

	Natal	Cape	Transvaal	Natal	Cape	Transvaal
(1) (a)						
No of pupils who were transported by means of the subsidised transport scheme	30	—	86	32	—	108
No of pupils who were transported by means of state contract bus services	15 762	494	1 780	14 690	522	2 403
(b)						
Total net annual cost of the subsidised transport scheme	R18 242	—	R84 487	R13 246	—	R85 977
Total net annual cost of state contract bus services	R3 750 538	R121 268	R910 582	R4 657 249	R163 770	R943 457

(2) The Department's policy with regard to the transportation of pupils is embodied in the regulation relating to the granting of financial or other material assistance to pupils and students as published under Government Notice No R773 of 21 April 1978

In terms of the said Regulations, the head of education is empowered to institute bus services to transport pupils to and from schools or award grants-in-aid or subsidies to parents and employer organisations for the transporting of pupils subject to such conditions as may be approved by the Treasury and Director of State purchases.

Southern Africa targeted by bank

8 Day 15/5/91. 58

GRETA STEYN

THE African Development Bank (AfDB) looks set to expand its activities in southern Africa — including joint financing of projects with the Development Bank of Southern Africa.

This was the message brought home by Development Bank GM Andre la Grange, who attended the AfDB's AGM this month in Abidjan. It was the first meeting to which the AfDB invited a representative from SA.

The Development Bank and the AfDB, which follows the OAU Charter on relations with SA, will pool expertise in the coming months.

La Grange said: "The interaction that we agreed on is first of all to conduct a few economic and technical studies on the possibilities that co-operation might offer for regional integration and regional trade, for the whole question of labour mobility, and of monetary and fiscal policies in the southern African region."

La Grange said his reception at the meeting had been nothing short of "magnificent" and that he had had contact up to the level of the Bank's vice-president. Discussions had also been held with delegates from all the Frontline states. "There are indications that the AfDB is showing a greater interest in southern Africa."

He noted he had picked up an "undertone" about SA being so dominating in the region and said it would have to take care not to become a "big, bad brother".

The AfDB is expected to visit Namibia during the year and talk is that it could visit SA at the same time. But despite the thawing in relations, the AfDB is still careful about discussing its links with SA.

A report in a special newspaper covering the AGM quoted the Bank's vice president, Adewale Sangowawa, as saying: "There are certain projects in which we are investing which they are also financing." He added there could be no "official" co-operation talks with SA.

Projects in which both the AfDB and the Development Bank have invested include the Lesotho Highlands Water Project and agricultural development projects in Mozambique.

The most recent example is Friday's announcement of the sugar rehabilitation programme in Mozambique, which the Development Bank will finance to the tune of R2,9m. The AfDB is also involved in providing finance and technical assistance for the overall rehabilitation programme.

☐ In an unrelated development, it was announced that Development Bank CE Simon Brand would replace Jan Lombard as one of SA's World Bank governors.

Santam's profits beat a surge in crime rates

B1004 15/5/91 (58)

LINDA ENSOR

CAPE TOWN — Short-term insurer Santam has posted good interim results despite the effect of high crime rates on the industry.

Unlike other short-term insurers which have suffered severe underwriting losses, Santam doubled its pre-tax underwriting profit to R2,2m (R1,1m) in the six months to end-March, although this did come off a low base.

The profit generated was more than the whole 1990 financial year's underwriting profit of R2,1m and investment income rose 7,5% to R37,1m (R34,5m).

However, Santam's directors warned that market conditions made it unwise to base expectations for the second half on the interim performance.

"The constant rise in crime-related claims as well as the influence which inflation has had on the amount of claims has meant that the premium increases of last year have led to only a modest improvement in underwriting results," they say in their profit announcement.

But MD Oosie Oosthuizen said that, barrring unforeseen circumstances, Santam should nevertheless "show an improvement on last year's results".

In the six months to the end of March earnings a share increased by 17,4% to 49,2c (41,9c) and a dividend of 14c (12c) was declared.

Gross premium income was 16,6% higher at R479m (R410,9m) while net premium income totalled R434m, 20,3% up on the previous period's R360,8m.

Santam's solvency margin has risen sharply to 39% from 34,9% at end-September 1990, which Oosthuizen said partly reflected the performance of its investment portfolio over the last six months.

Growth at an annual rate of 24% was achieved in income and capital gain.

Minorities to decide Saambou's fate

GRETA STEYN

SMALL shareholders with almost 50% of Saambou's share capital hold the key to the building society group's fate, to be decided at a general meeting in Pretoria today.

The meeting has been called to approve the directors' transaction with Fedsure subsidiary Fedlife, which will give Fedlife an option to purchase 30% of Saambou. Fedlife pays for the option with an Eastern Cape leasing company, Planet Finance, in a R55m deal.

The surprise bid by Trafalgar Portfolio Managers for 30% of the group is conditional on shareholders rejecting the Fedsure deal. Trafalgar and other shareholders, representing about 30% of the total, have criticised the Fedsure transaction, and argue that small shareholders will have nothing to show for the deal, which values Saambou at 140c a share while Trafalgar offers 180c.

(58)

However, Saambou's response is that Trafalgar has no proven track record and that the long-term health of the group depends on approval of the Fedsure deal.

Saambou has raised the possibility the Registrar of Deposit-Taking Institutions may not approve a takeover by Trafalgar, but the latter has provided guarantees it will be able to place its shares despite such disapproval.

BDay 15/5/91

58

In terms of the Deposit Taking Institutions Act, 1990, the responsibilities of the Office of the Registrar of Deposit Taking Institutions (which has fallen under the Reserve Bank since 1987) are to monitor risk management and regulate the banking sector accordingly. The decisions of the Registrar of Deposit Taking Institutions are thus often based on criteria (eg solvency) other than those used in monetary policy decisions of the Reserve Bank

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Saambou deal with Fedsure is approved

B Day 18/3/97

GRETA STEYN

58

SHAREHOLDERS approved Saambou's deal with Fedsure after a stormy general meeting yesterday, paving the way for a new R8bn financial services group.

The victory was largely the result of Investec's voting its 13% stake in favour of the transaction. Investec had the right to vote the shares, even though they had been purchased by Prestasi chairman Jan Erasmus, as the bank had provided the finance. A Supreme Court order yesterday morning ruled that Erasmus could not vote.

Investec explained its decision saying it had "always been close to Fedsure".

The bid by Trafalgar Portfolio Managers, to buy 30% of Saambou, now appears to be off as it had been conditional on the Fedsure transaction falling through. But Trafalgar MD Pieter Hougaard said after the meeting that the possibility of legal action could not be excluded.

There was no shortage of speakers attacking the Fedsure deal, claiming that Saambou would effectively become a "captive" of Fedlife. The Prestasi camp alleged that Fedsure would pay about R3m for an "option" with a true value of R30m. At the same time, Saambou's ability to raise finance in the markets would be severely curtailed, they said. The deal's valuation at 140c also sparked fiery comments.

Senbank, which had provided finance and advice to Trafalgar, opposed the deal. The merchant bank's MD Hennie van der Merwe said: "I am worried that the directors have not been able to answer any of the points of criticism raised against the Fedlife transaction. Some serious allegations of negligence has been made and you have not given a response."

Saambou chairman Hendrik Sloet responded: "These allegations stem from the vested interests of people who wanted Saambou for themselves. (Prestasi's) Mr Erasmus has openly acknowledged that he wanted to take over Saambou and I'm sure Mr van der Merwe could say the same."

Saambou closed at 165c on the JSE yesterday, down from its high of 182c before the release of poor results. Analysts expect a further downward drift.

Bankers 'in no rush' to join JSE stockbrokers

(58) B Day 16/5/91.

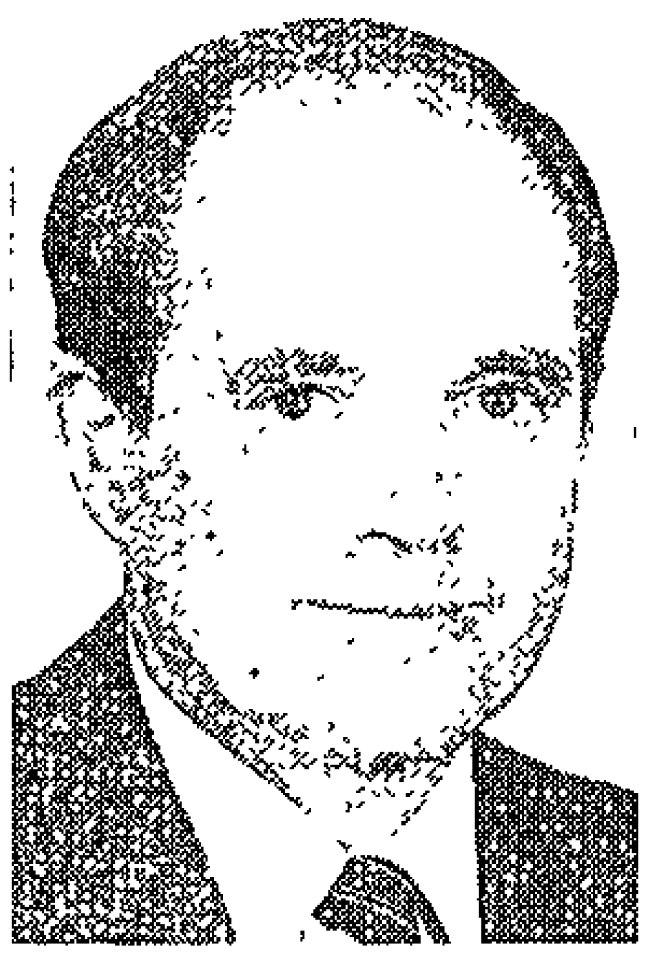
ROBERT GENTLE

BANKERS have welcomed the idea of being allowed to have a shareholding in JSE stockbroking firms, but said they would not necessarily rush in if the proposal was adopted.

They were reacting to a suggestion made by JSE stockbroker John Cutten of Hayes Cutten calling for banks to be allowed to hold up to 50% of a stockbroking firm and help the exchange wipe out its debts.

Allied Bank deputy treasurer trading Charles Buchanan said a banking presence among stockbrokers would usher in the kind of better risk management associated with well-capitalised firms.

First National Bank assistant treasurer Mike Law said that while he welcomed the proposal in principle, he would rather wait for deregulation — "which is going to come anyway" — and set up a separate trading arm.



VOSLOO

FERREIRA

He said the London Big Bang experience had shown that it was expensive for banks to buy up stockbroking firms.

Standard Bank MD Mike Vosloo said that while he opposed fixed commissions and barriers to entry, he felt the JSE was functioning adequately and that there were benefits to its single-capacity structure.

"We would not resist an evolution towards dual capacity, provided it was an orderly process," he said.

Volkskas Merchant Bank senior GM Jan de Kock said the value of banks as shareholders would only be realised in a screen-based, dual-capacity market.

Rand Merchant Bank (RMB) chairman G T Ferreira, a vocal proponent of a more open JSE, said RMB had no ideas about moving into stockbroking firms, especially if the aim was just to help settle the JSE's debt problem.

"It is not that we particularly want to get into the JSE, but that the JSE should be open to whoever wants to get in so that liquidity and cost effectiveness can be improved," he said.

Meanwhile, Sidney Frankel, CE at Frankel Max Pollak Vinderine, confirmed this week that about two years ago, his firm had come within a day of signing a deal that would have resulted in it gaining control of a small bank.

However, the firm called it off after realising that the resulting risk profile would not have been to its liking.

Lavish praise for Syfrets' big performer

(58)

B/Day 16/5/91

LINDA ENSOR

CAPE TOWN — Syfrets' Disa Fund, designed for foreigners to invest in South African gilts through the financial rand, has been ranked internationally as the best performing offshore fund in its sector over the year to end-March.

The rating was given by the Micropal Group of Britain and published in the European magazine, International Money Marketing.

A statement said Micropal's analysis of performance was based on the investment of $100 (about R270) over a year with income reinvested.

It said Disa earned investors a total return of $143,54 over the 12-month period compared with the survey's sectoral average of $112,27.

While the investment is made through the financial rand, income is received in commercial rands.

The Disa Fund, launched in December 1989, was listed on the Luxembourg Stock Exchange this year.

The structure of the fund was recently changed from long-dated bonds to medium-dated bonds and is offering a yield of 19,25%. Total assets of the fund amount to about R20m.

Fund manager Rob Nichol says the response by overseas investors to the fund has exceeded expectations.

He adds that the fund's international rating will give impetus to marketing efforts in Britain and Europe. London broking firm James Capel is to act as agent for Disa in Europe.

New Cape Town firm promises innovation

B/Day 16/5/91 (58)

THREE well-known figures from Rand Merchant Bank have set up an independent securities trading firm, Thirty Four South Research & Trading, which will operate across the board in derivatives, gilts and equities.

They are former Rand Merchant Bank Cape Town office head Charles Bryant, Ray Cadiz and Johan Buijs.

The firm takes its name from the latitude of Cape Town, where it is based. It will start operating on June 3.

The Discount House of SA (DHSA), which has a stake in Thirty Four South, will clear all the company's futures trades and has undertaken to guarantee its transactions.

DHSA MD Mark Thompson said in an interview that Thirty Four South had a strong client base.

Bryant said Thirty Four South would concentrate on adding value to securities trading by taking a more pro-active role.

ROBERT GENTLE

It would devise financial strategies rather than "wait for the phone to ring" to do a deal.

"We will focus on providing specialised financial services in the form of yield enhancement and risk management strategies to institutional clients," said Bryant.

All deals would be on a pure broking basis with a counterparty at each end, he said. "There will be no conflict of interest with clients because the firm will not trade for its own account."

Bryant said that now was a good time to start a new firm because the market was near the bottom and would soon provide good upside potential.

Asked how the resignations had gone down at Rand Merchant Bank, Bryant said: "It was a professional parting."

Shareholders give nod to Saambou deal with Fedlife

(58)

Star 16/5/91

By Roy Cokayne

Saambou yesterday won shareholder approval at an acrimonious special meeting for a deal which appears to give Fedlife effective control of the Pretoria-based group,

When the outcome of the voting was announced there were suggestions from one of the shareholder blocks opposed to the deal that it was merely "half-time".

The meeting in Saambou's head office in Pretoria was attended by about 90 people and characterised by technical and legal arguments.

Some shareholders even accused Saambou management of negligence.

Saambou chairman Hendrik Sloet said the impression had been created that management was dishonourable and not looking after the interests of shareholders.

He said many companies were interested in a deal with Saambou and that management had looked for a partner in an honourable manner and was convinced Saambou could work with Fedlife.

The three resolutions relating to the Fedlife transaction were passed by a majority of more than 12,6 million.

After the announcement of the outcome of the vote, Fedlife managing director Arnold Basserabie said that Fedlife had entered the agreement with Saambou in good faith and at all times would continue to act in good faith.

"There are benefits to all sides in the transaction and we look forward to a long and happy association with Saambou," he said.

Prior to voting it was claimed that in terms of the Banks Act and Building Society Act it was illegal for Nuwe Suid-Afrikaanse Prinsipale Beleggings (Edms) Bpk (NSAP) and The CC Exchange (Pty) Ltd — both involved earlier in the day in an urgent Pretoria Supreme Court matter relating to voting rights at the special meeting — to hold more than 10 percent of the issued share capital in Saambou.

The two companies have a 13 percent shareholding in Saambou.

However, when the outcome of the vote was announced, Mr Sloet said the resolutions were accepted by a majority, even when the three percent shareholding to which legal objections had been raised was allowed.

Mr Sloet said Saambou's management had identified with Fedlife because it was an independent company.

Fedlife's balance sheet was about the same size as Saambou's and the business of the two groups did not clash.

They operated in different market sectors, which would benefit Saambou, and Fedlife had expertise that could benefit Saambou and products that Saambou would like to be able to offer its clients.

Eugene Sklaar, representing The CC Exchange (Pty) Ltd, said the commercial viability of the transaction was at odds with Mr Sloet's views.

"The transaction will impact negatively on the share price of Saambou," he said.

But Mr Sklaar conceded the claim that the association of Saambou and Fedlife would be to the benefit of both companies was both plausible and probable because of a fair amount of synergy that would result from it.

However, he said the transaction was "hardly a two-way transaction".

Both Saambou and Fedlife would have to continue ploughing money into Planet if the company was to grow.

He said the transaction would impair Saambou's ability to raise finance elsewhere and Saambou would become "a complete captive of Fedlife".

Henry Vorster, representing 3,5 million shareholders, including Metropolitan Life's and other smaller shareholders, claimed the transaction was illegal in terms of two sections of the Deposit-Taking Institutions Act.

In addition, he said with Saambou's current share price above 160c, the Fedlife acquisition price of 140c was not justified.

Earlier yesterday an urgent application in the Pretoria Supreme Court against Saambou Hendrik Sloet, Saambou and Investec Bank was unsuccessful.

NSAP and CC Exchange applied for an order directing Mr Sloet to recognise and allow representatives duly authorised by the applicants to vote at the general meeting.

They also asked for an order excluding any person nominated to act as representative for Investec.

Mr Justice Roos dismissed the application with costs.

But he granted a counter-application by Investec that Mr Sloet recognise any director or nominees of Investec as representatives" at any general meeting of Saambou's shareholders to be held within 18 months from May 3.

Leave to appeal against the ruling was refused.

Saambou deal set for long legal battle

15.5.91.

GRETA STEYN

58

THE dust refuses to settle on the tussle for Saambou, with a protracted legal battle looming over Investec's right to vote the 12-million shares that decided the ballot in Fedsure's favour.

The dispute arises because Prestasi associate NSA Investments was prevented by a court order from voting its shares. In terms of a financing arrangement between Investec and NSA, Investec had voting rights on the shares.

But the debts have been fully repaid and Prestasi claims the outcome of the general meeting is therefore not a fair reflection of shareholder sentiment.

Investec chairman Bas Kardol, asked why the bank had retained the voting rights over the shares when they had been fully paid for by NSA, said: "It was a strategic decision."

NSA Investments MD Hardy Joubert said yesterday: "Had it been possible for NSA to exercise its voting rights against the Fedlife bid, which NSA would have done, the bid would not have succeeded. A convincing majority of the shareholders at the meeting were against the transaction, but due to technical reasons, they could not protect their interests."

Opponents of the Fedsure deal indicated further legal action was virtually inevitable. But Prestasi chairman Jan Erasmus said Prestasi would co-operate with Fedlife and Saambou "if the interests of all Saambou shareholders could be served".

But Trafalgar Portfolio Managers MD Pieter Hougaard reiterated his statement after the general meeting that his company was looking at the possibility of legal action. Although he would not comment further, talk is that Trafalgar will continue with its offer to purchase 30% of Saambou.

Another party opposing the bid is Metropolitan Life, whose representative at the general meeting Henry Vorster warned that the share would lose value on the JSE if the Fedsure deal was accepted — a prediction which proved accurate. The share lost 9,6% yesterday to close at 155c after touching a low of 150c. Trafalgar's offer was to have been pitched at 180c.

Bank of Taiwan plans to open SA office

B Day 17/5/91

ZILLA EFRAT

THE Bank of Taiwan is set to open a representative office in SA.

An embassy spokesman said a Bank of Taiwan representative had visited SA in January.

The bank had then decided it would come to SA, but the embassy was waiting for final confirmation from the Bank of Taiwan about when and how it would be done.

In addition, China Airline will inaugurate its Taipei-Johannesburg passenger service later this year.

The embassy says all these developments will help expand business between SA and the Republic of China.

Last year Taiwan exported R1,84bn to goods to SA in 1990 and imported R3,08bn with a R1,23bn surplus in favour of SA, Taiwanese trade statistics show.

The two-way trade volume of R4,91bn has made Taiwan SA's sixth largest trading partner after Germany, UK, US, Japan and Italy.

A statement from the Taiwanese embass says, in 1990 the total trade beteeen SA and Taiwan grew 30,9% over 1989, but the R4,91bn figure accounted for only 1,5% of the total two-way volume of Taiwanese trade.

As a result, the embassy says there is plenty room for traders from both SA and Taiwan to increase their business, especially in view of the mutually complementary nature of the two economies.

There are currently about 250 factories in SA set up by Taiwan investors providing employment for 40 000 workers.

HOME LOANS FM 17/5/91

SAME DIFFERENCE (58)

Despite Allied's recent 0,25 percentage point cut of its home loan rate, some customers will still pay more than clients at other banks. Only preferential clients will enjoy lower rates.

Allied's differential bond rates now range between 19%-20,25%. Other banks claim to offer preferential rates of 19,25% with a maximum of 19,75%.

Before the cut, Allied's differential rates ranged from 19,25%-20,5%. There is speculation that this differential so annoyed customers with the higher rates that the building society was forced to make the cut.

Senior GM Don Hunter admits there were

continue →

FM 17/5/91 (58)

complaints but says clients were encouraged to discuss them with their managers; this was not the reason for the cut. On average, clients may pay more than the basic 19,5% but Hunter says it is too early to tell.

"This move simply brings Allied's rate down to where ours has been for four or five months," says FNB assistant GM Pat Lamont. Other institutions share this view and have no intention of cutting rates unless the overall cost of borrowing falls.

Allied says the move was possible because money market rates have eased. But doubts have been expressed about its ability to sustain the cut for long. "If it's doing this to attract new customers, what will happen to those customers if rates are forced up?" asks NBS assistant GM Trevor Olivier. "You can't undercut the market indefinitely."

The advantage of Allied's differential approach is that the rate is negotiable and branch managers have discretion. "This break from the traditional mode of quoting rates gives us a competitive edge," says Hunter. But, with six possible rates within the differential pattern, Olivier says the system looks extremely complicated.

Allied bases its rates on the size of the bond, number of years for which the bond has been held with Allied, the amount that has been repaid, whether the bond is insured with Allied, and what other accounts the customer holds with Allied. ■

CAPE INVESTMENT BANK 58

CONFIDENTIAL INQUIRY

FM 17/5/91

Now that Cape Investment Bank has been put into final liquidation, the circumstances surrounding its demise will be the subject of a confidential inquiry.

Under the Companies Act, the Master of the Supreme Court — in this case from the Cape of Good Hope division — may call for a Section 417 inquiry, any time after a winding-up order has been made. An inquiry is usually held if liquidators suspect something unusual or irregular led to the liquidation. It helps liquidators to gather information relating to the recovery of assets for creditors, who may attend.

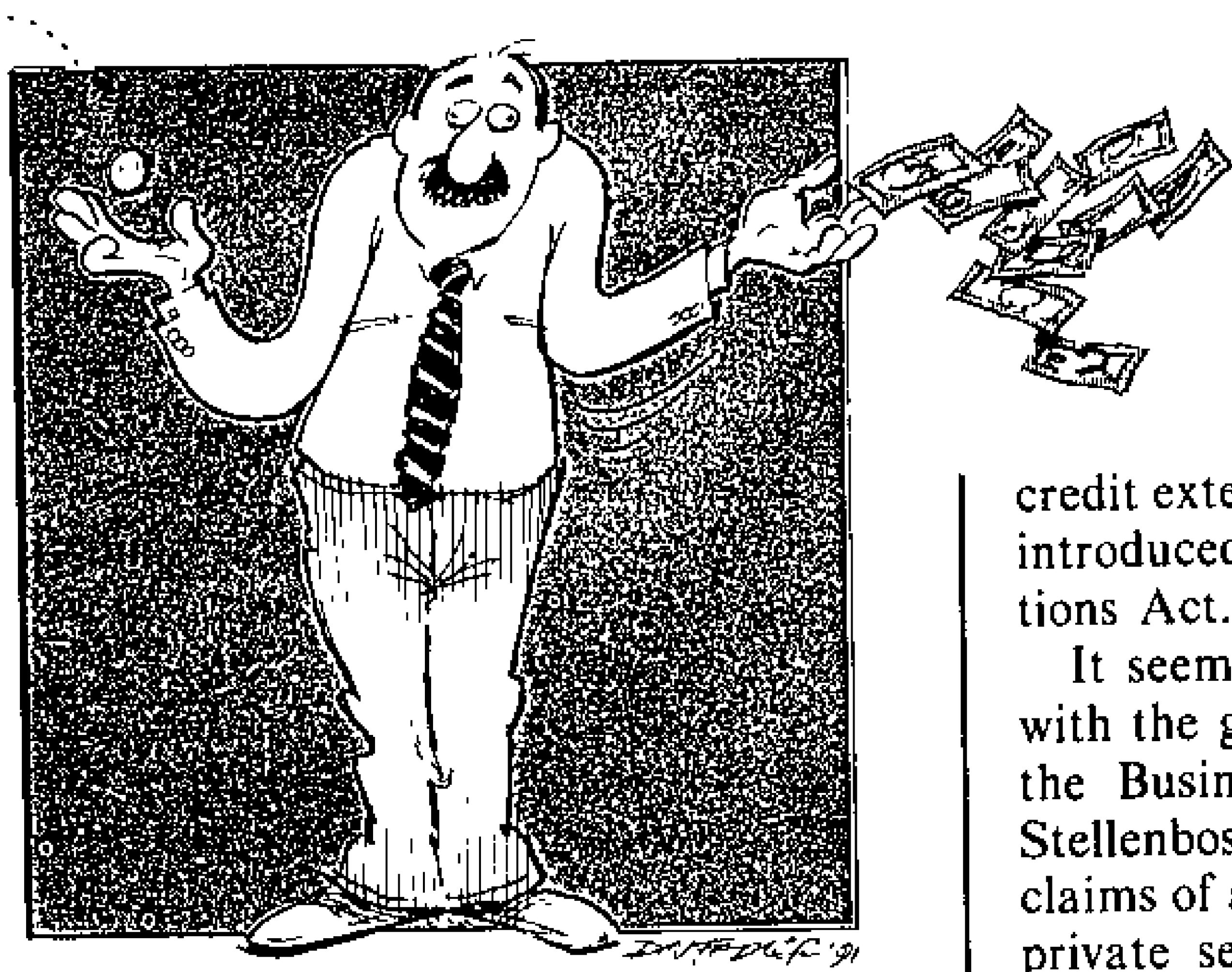
The Master may subpoena anyone he believes might be able to provide information concerning the trade, dealings, affairs or property of the company to testify before a commissioner. The inquiry is usually held in camera so witnesses don't have to worry about the effect of public disclosure.

After an inquiry the liquidators may pass the case on to the Attorney-General for possible prosecution. Evidence gathered may be used in court. When there is no prosecution results of an inquiry are seldom made public.

Liquidator KPMG Aiken & Peat's John Louw can't say how long liquidation will take. "It depends on the time it takes to dispose of assets." He won't comment on the S417 inquiry.

The bank was provisionally liquidated on April 9 on an application by Deputy Registrar of Deposit-Taking Institutions Christo Wiese.

 FM 17/5/91 58



requirements (*Economy* May 10). So any shift in rates has limited significance.

More fundamentally, high liquidity is seen as temporary, largely the result of the acceleration in government spending that's traditional at the end of one fiscal year and the start of a new one. So the inflow of cash is not expected to prompt a change in the stringent monetary policy of Reserve Bank Governor Chris Stals who has systematically siphoned the excess out of the market with a series of special Treasury bill tenders.

Certainly, there has been no spillover of money market liquidity into the bond market, where rates reflect bearish perceptions: pessimism about inflation and uncertainty over political stability. The rate on the benchmark Eskom 11%, for instance, which was below 15,4% on February 11, topped 15,7% in the first week in May.

So at this stage seasonal flows are obscuring underlying events in the financial markets. It is difficult to pinpoint the precise stage of the interest rate cycle.

And important economic indicators shed little light on the situation — the latest figures on money supply and credit extension are distorted by the changes introduced by the Deposit-Taking Institutions Act.

It seems, however, that Stals is satisfied with the general direction. At a seminar at the Business School of the University of Stellenbosch, he said: "Recently, total claims of all banking institutions against the private sector increased at a rate slightly below current inflation." This would bring it close to the 1% monthly growth that has been the Bank's target for more than three years.

Perhaps for this reason, he reports a recent change of gear in monetary policy: "For a long time the Bank had to depress bank lending and all money creating activities . . . Now we have only to maintain current levels of expansion."

But, surprisingly, he revealed that "there was again a quite significant increase in total real expenditure" in the first quarter. Destocking and a fall in fixed investment were not enough, he said, "to offset some further increases in private-sector consumer demand and current government expenditure."

Consumption spending, then, is not being financed by domestic credit. Other possible explanations could be that:

- □ Borrowers are using more offshore credit, easing the pressure here;
- □ Government spending is putting money into consumers' pockets; and
- □ Increases in pay remain above the inflation rate, though are probably lower than last year's 16% or so.

So the normal link between consumption demand and credit demand is tenuous.

The implication for interest rate policy is sobering. If nominally high and positive real interest rates fail to restrain consumer spending 28 months into a downswing, what will happen to consumption demand when rates are allowed to fall?

There are two possibilities. If producers are confident enough to make real capital outlays, and funds from foreign or domestic savings are available to finance them, SA could experience the sort of boom we thought we'd never see again. If confidence or funds or both are lacking, and supply fails to meet demand, we will see inflation reaccelerate towards the 20% achieved in January 1986.

The difference between the two situations is political settlement and social stability. ■

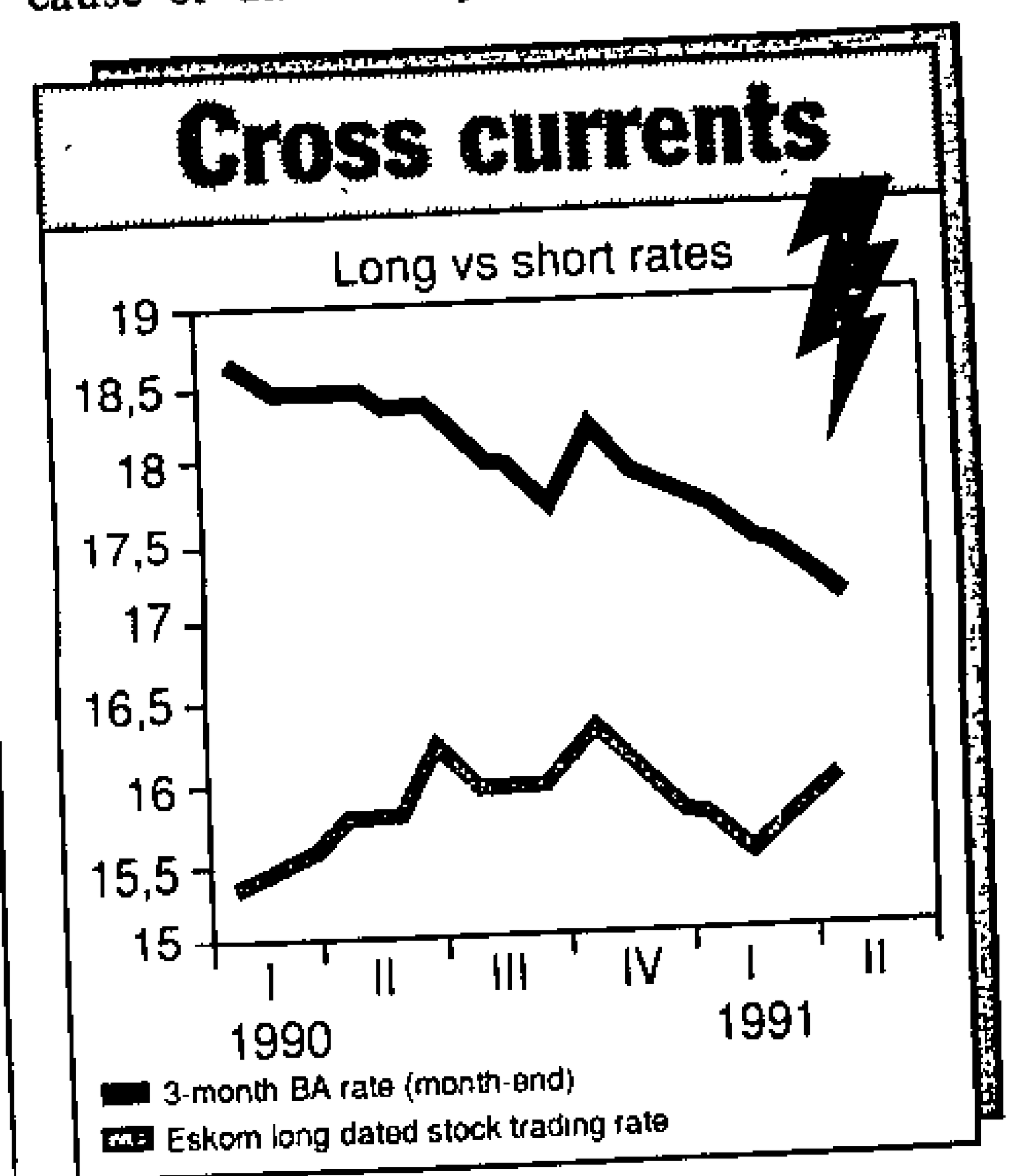
INTEREST RATES FM 17/5/91

BROKEN LINK (58)

When the rate on three-month bankers' acceptances (BAs) fell to 16,95% this week, hardly a ripple ran through the money market. In more normal times, the fact that the security was trading below the 17,5% at which it is discounted at the Reserve Bank window, and below the 17% official Bank rate (at which Treasury bills are discounted), would have aroused great expectations of future falls in these official rates.

Now a number of factors precludes any such expectation.

Firstly, the market in BAs and other liquid securities is exceptionally thin, partly because of uncertainty over future reserving



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INSURANCE FM 17/5/91 (58)

GA HITS BACK

In prevailing conditions, insurers look at every major claim carefully, if not with scepticism. One major insurer estimates that 70% of claims may be inflated, if not downright fraudulent. The temptation exists, in troubled times, to get premium payments — often considered grudge payments — back in a lump sum.

Because of this unhealthy insurance environment, a six-week period for investigation and assessment of loss is by no means unusual. Yet this situation has put General Accident Insurance (GA) — no stranger to headlines — back into the news. To which GA is about to respond by reporting the incident not only to the Media Council but also to the Law Society.

On May 10, startled executives of GA saw a report in *The Citizen* headlined "Probe ordered into why insurer hasn't paid fire claim." In the body of the report it said that Justice Tom Cloete had ordered an inquiry by a magistrate to establish why the insurance company (GA) had not met a claim of R2 016 077.

On May 13, *The Citizen* published a prominent correction: "No insurance probe ordered into fire claim." There was, in fact, nothing in the judgment about a magisterial inquiry.

GA is controlled by a prominent UK insurer, General Accident, Fire & Life. First National Bank and Southern Life have substantial shareholdings. Its underwriting results, due out next month, are expected to show heavy losses.

However, last month the *FM* recorded that GA had been recapitalised to the tune of R21m by its owners. GA's executives have endured rumour and gossip but the latest incident seems only peripherally related to this.

GA assistant GM Ian Bain says the company is reacting strongly to *The Citizen* incident because it believes the newspaper, which he says was not in court to cover the case but was sent selected papers immediately afterwards, was being used to pressure GA into a settlement.

In the case which caused the ruction, Freeflow Trading (Lesotho) (Pty) Ltd brought a winding up action against a Johannesburg firm, RTS Techniques and Planning (Pty) Ltd. It arose from a loan of R70 000, with subsequent interest, made by Freeflow to RTS on March 21 1990. Court papers make it clear there was a personal friendship between Allan Rabbie, who brought the action on behalf of Freeflow, and Bernard Cutler, MD of RTS. Rabbie's affidavit mentions that he and Cutler "engage in sporting activities together and we are members of the same boating club."

The Rabbie affidavit also mentions that Cutler was involved in litigation with purchasers of his business who had resiled from the agreement of sale.

On March 23 1991, Cutler informed Rabbie that his business premises had been broken into and had suffered a big fire.

Rabbie goes on to describe assurances by Cutler that there was insurance cover (from GA) and that this included a provision for loss of profits.

He adds: "At a meeting which took place at the house of Peter Clive Soller, an attorney who happens to be a friend of mine and is also Cutler's attorney, Cutler unequivocally indicated that as a result of the insurer's failure to meet its commitment in terms of the very risk for which the respondent (Cutler) was insured and the respondent's already pre-existing precarious financial position, the respondent was totally unable to make payment of the applicant's claim and indeed, was in a position whereby by the end of this week, it could no longer trade and would have to lay off its artisans."

The Rabbie affidavit describes conversations with broker Jeffrey Addelson (now dead) who arranged the cover with GA. Addelson, according to the affidavit, assured Rabbie that GA had undertaken a full and comprehensive investigation, including the services of a forensic scientist "and had found no reason why the claim could be repudiated on any basis suggested of an unlawful act on the respondent's behalf."

"Addelson drew my attention to the fact that it seemed to be common cause to him as a broker, for the company concerned and indeed to members of the public interested in corporate finance, that there was talk in the marketplace and indeed writing to that effect, that the insurance company concerned was simply not in a position to accept the respondent's claim."

Correspondence in the *FM*'s possession clearly sets out the stance of GA: a belief that *The Citizen* was deliberately fed the notice of motion and affidavit. This correspondence also reveals that GA considers the action was a strategy designed to create publicity which would force an early claim settlement.

What particularly incensed GA is that the insurer has not repudiated the claim and GA was not given sight of what the applicant was alleging in the affidavit.

According to GA's records, the fire occurred on March 23, a Saturday. On March 25 GA instructed an independent loss adjuster to investigate. The loss adjuster subsequently made a detailed report, which included a statement by a forensic fire expert that the fire had been started by burglars. He reported also the fire brigade view that "the fire was started by burglars and that matches used for lighting purposes were found in all the unburned offices."

Soller says he finds the contention that his firm has devised a "strategy" against insurers is "flattering," adding however that he's dismayed by the allegation. "We have never used such a strategy before," he contends, adding that the use of any lawful means to serve his client's advantage is permissible. As for informing GA about the winding up action, Soller says, he understands GA had been informed that RTS would have to be liquidated if no interim payments were received.

☐ GA is also the insurer of the Durban Country Club, severely fire-damaged last week. GA GM Clive Dean says a company executive is flying to Durban this week to present the first interim payment to the club. ■

'Police, Govt not doing enough'

Banks facing security crisis

Star 17/5/91.

(58)

By Guy Jepson and Bronwyn Wilkinson

The ruthless slaying of two Witbank bank employees on Wednesday has triggered accusations that the police and the Government are not doing enough to safeguard bank staff and customers.

In a hard-hitting statement after the tragedy, First National Bank senior general manager Jimmy McKenzie called on the State to end "this lawlessness in our community".

Between five and seven men, armed with an AK-47 rifle, a shotgun and a pistol, stormed into the FNB branch in Witbank at 9.45 am.

Supervisor Petro Barnard (53) was shot in the face at point-blank range while at her desk. Teller Willem Fick (27) died in hospital on Wednesday night after being shot in the stomach.

Witnesses to the robbery were traumatised by the callousness of the robbers, who went on to assault a pregnant telephonist. In particular, they remembered a chilling remark by one gang member during the robbery.

"Kill the bloody bastard!" he exhorted his colleagues.

A passerby was wounded by the fleeing robbers, who escaped with R28 000 in cash.

Expressing his shock at the incident, Mr McKenzie said he was deeply concerned at the spate of armed robberies at FNB branches in recent weeks.

"Our bank had made a very considerable investment in security to ensure that our staff and customers are able to go about their business in safety.

"However, I would once again like to stress that we in business can only do so much. At the end of the day it is the State's responsibility to maintain law and order and to protect the country's inhabitants from those with unlawful intent."

Commenting on Mr McKenzie's statement, Rod Hyde, general manager (operations) of Standard Bank, said. "The gangs carrying out these robberies are large, well-armed and well-organised. There is a limit to what you can do before the cost of security puts you out of business."

Graeme Rowan, deputy general secretary of the SA Society of Bank Officials, said although his organisation had taken the matter of the safety of bank employees to the highest Government levels, the results of representations to the Commissioner of Police, General Johan van der Merwe, and Law and Order Minister Adriaan Vlok had been "less than satisfactory".

Tony Leon, Democratic Party MP for Houghton, said R35 million had been stolen from banks and other financial institutions during 1990.

He accused Mr Vlok of "ducking the issue consistently by saying there aren't enough men".

Mr Leon said there was a degree of complacency at certain levels of the police force. "They almost deny that things are out of hand, which they certainly are."

Roy MacFarlane, managing director of Fidelity Guards, said the police force had been diverted from its crime prevention functions by having to contend with widespread political conflict.

"How much can the police do when they have to concentrate on political violence? There just are not enough men on the ground."

Approached for comment yesterday, Law and Order Ministry spokesman Captain Craig Kotze said the SAP had thrown all its resources, including its extensive intelligence capabilities, into "the struggle against crime and, in particular, the availability of weapons such as AK-47s".

He said the only way to beat crime was for all law-abiding citizens to engage in a huge combined effort.

"South Africans should not fall into the trap of believing that crime prevention and crime combating is the sole province of State agencies such as the police."

Since the Witbank hold-up:

- A 24-year-old teller of the United Bank in Sunward Park, Boksburg, was assaulted by a gunman and robbed of a substantial amount of cash on Wednesday.
- A Coin Security road marshal, Paul van Rensburg, was yesterday shot and wounded in Edenvale when he attempted to stop five heavily armed men from escaping with R95 000.
- At midday yesterday three armed men eacaped with an undisclosed amount of money after holding up personnel at the Rissik Street, Johannesburg, branch of Saambou National Bank.

PENSION FUNDS Fm 17/5/91.

TAXING SAVERS

58

Trade unionists and socialist politicians realise all too well that their political powers would be enhanced if they had greater influence over the resources of existing pension funds, both private and public. But nothing would be quite as potent in their hands as a compulsory State pension scheme.

These are matters that have been raised in recent weeks at the Institute of Life & Pension Advisers' convention in Durban and at the Pensions Institute of SA's congress in Cape Town. They are likely to gain in controversy as the reform process gathers pace and while the economy is jerking along on a plateau of minimal growth.

SA has an unfortunate history of pension fund resources being used by the State for its own purposes. By forcing private-sector funds to place a proportion of their investments in official securities yielding returns at below market rates, Pretoria has been able to borrow cheaply for its apartheid purposes. One outcome is the persistent rate of inflation that is so impoverishing us.

Having been brazen enough to tap pension funds (through prescribed investments) outside its immediate control, government was hardly likely to be less delicate in using public-sector pension funds for its own purposes. The secretary of the former Public Debt Commissioners used to be open about the fact that at times he was required to invest these funds in a manner that was not always in the long-term interest of future pensioners.

Fortunately, Pretoria has moved some way from those old and bad habits. But they had made impression enough on the investment community and those who knew what was happening for there to be a storm when in the Eighties government proposed a State pension fund.

This was shelved in favour of compulsory pension transferability which, in turn, was opposed by black trade unions. Black workers preferred the reduced future security offered by provident funds, but higher cash payouts on resignation. So compulsory transferability was dropped and provident funds became the favoured means of mollifying trade unions.

The parrot cry now is for the considerable resources of all these pension funds to be invested in what are glibly referred to as more productive investments to get the economy moving again and increase the number of jobs available to the unemployed. Simultaneously there is a move to channel some of these resources into spending on housing and other worthy social projects. Indeed, Finance Minister Barend du Plessis echoed these words at the pensions congress in Cape Town this week.

This all sounds very socially acceptable and caring. But as often happens with economics and investment, what appears to be socially desirable is often, on closer scrutiny, the cause of economic decline and social deprivation.

The problem is not that pension funds are investing in unproductive investments that are too safe. It is that we have insufficient savings because for too long government, for its own purpose, forced interest rates to levels too far below the prevailing rate of inflation. Simply put, they taxed savers to pay for apartheid.

Now, by suggesting that savers (through pension funds) invest in high-risk or non-productive social projects, they want to tax them to mitigate the social harm that years of apartheid have brought.

But the matter does not rest there. None of this would be necessary if government stabilised prices (for government and government alone is the cause of inflation) and reduced taxes to stimulate investment — once, of course, it has brought some peace to the townships. For not only do we suffer from a steeply progressive tax structure, but the total level of tax on each rand earned (some accountants say it could be as high as 75c in the rand) is far higher than in our major trading partners. No wonder investors are recalcitrant and that we have exchange controls to keep capital in by force of law.

Pension funds cash flows into the equity market *are* going into productive investments. They *do* form part of an upward spiral of industrial share prices. But these high share prices enabled quoted companies to borrow more capital from shareholders at lower cost. The reason that not enough companies are doing so needs to be sought, not in the imperfection of the share market, but in other factors.

Endemic unrest, injudicious talk of nationalisation and wealth redistribution and high and uncertain taxes are the areas those who want to see increased and more productive investment should examine more critically.

In humane societies certain social pensions for the aged, indigent and unwell have to be a direct cost on the taxpayer. But a compulsory State pension fund is a very different matter. Not only does it deprive ordinary people of the right to decide for themselves to what degree they wish to provide for their old age, but inevitably the cost on the fiscus becomes too much as government uses high pension benefits to secure voter support. At that stage there is invariably pressure for the entire pensions industry to be nationalised to bolster the State fund's solvency.

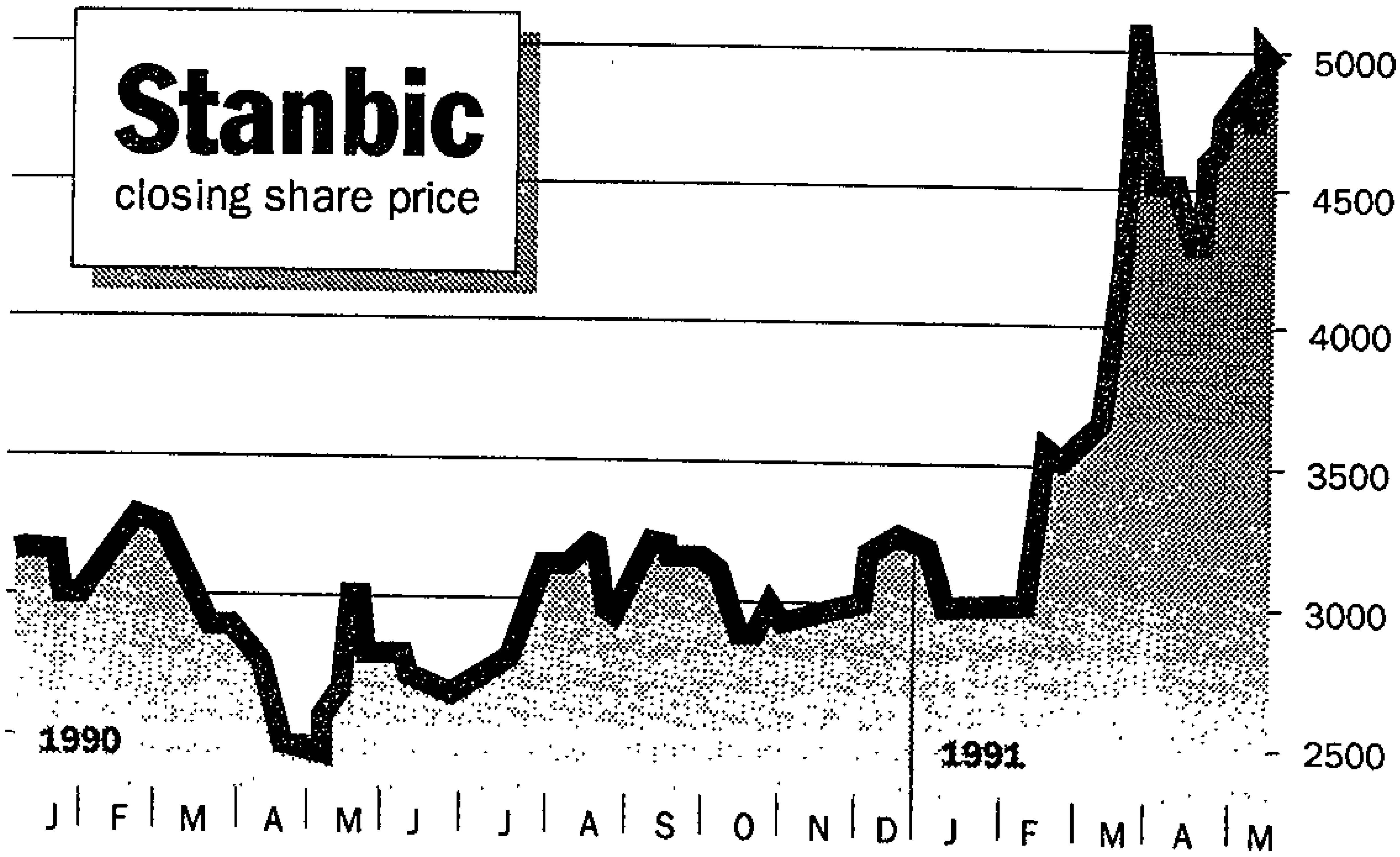
The investments of a State fund can all too easily be used by government as a mechanism for clandestine nationalisation. So instead of the State's share of total output reducing and thus increasing the efficiency of the economy and fostering growth, the opposite trend is reinforced.

There is no doubt that the pensions industry has been abused in this country by the apartheid government. But for future governments to continue that abuse would not only be morally indefensible but economically debilitating. The cost of social upliftment must be carried by all taxpayers, not just by those who, despite heavy odds, have been judicious enough to make provision for their old age. ■

Stanbic price sets tongues wagging

(58) Star 18/5/91.

DEREK TOMMEY



STANDARD Bank Investment Corporation (Stanbic) shares have performed spectacularly over the past three and a half months.

In mid-February they were trading at around R30. By the middle of March they had reached R50. They fell back to R43 after the annual meeting in mid-April.

But since then they have recovered strongly to reach R51 this week before falling back to just below R50 yesterday.

Overall, Stanbic shares are 60 percent higher than three months ago. This could reflect buying on enhanced investment prospects for the company.

But as profits and dividends show no signs of rising like this, the soaring price has set off speculation that someone is buying the shares for other reasons.

One suggestion is that either Liberty Life, Stanbic's biggest shareholder, or Old Mutual, Stanbic's second-largest shareholder, or both, are buying the shares.

Old Mutual, it is claimed, is buying them to ensure that Liberty does not seize control of the bank. Liberty, in turn, is buying them to oust Old Mutual.

Another possibility, which is a little far-fetched, but which has some supporters in banking circles, is that Old Mutual wants to retain a signficant stake in Stanbic, not just for tactical, but for strategic reasons.

The speculation is that at some time in the future it would like to merge Stanbic with Nedcor, which it controls.

The fact that Old Mutual and Liberty do not see eye to eye over Stanbic became apparent at Stanbic's annual meeting last month.

Old Mutual took everyone by suprise by blocking an increase in Stanbic's share capital.

Stanbic directors had proposed lifting the authorised capital by 25,9 million shares to 152 million shares.

This would have given them control of 54 million unissued shares, equal to more than 50 percent of the issued share capital.

These shares would have enabled Stanbic to pay for acquisitions worth up to R25 million.

But at the same time, if they were issued to a Liberty Life associate, a third party could have totally changed the composition of Stanbic's shareholders.

Liberty has a 31,6 percent stake in Stanbic. Old Mutual has 20,3 percent. Rembrandt has 10,7 percent and Gold Fields 10,3 percent.

If the 54 million shares had been issued to a third party, say, in return for assets, that third party would have received a 33 percent stake in Stanbic, giving it considerable control.

As for the remaining shareholders, their stake would have been reduced by a third. Liberty's would have dropped to 20 percent and Old Mutual's to 13 percent.

Suggestions that Stanbic and Nedcor should merge appear to reflect the fear that once the US lifts sanctions, many foreign banks are likely to start operating here.

Most of them would be much larger than local banks. Their clout, therefore, could be significant.

To compete with them, local banks need to become larger, say some bankers. This was one of the reasons put forward for the merger of Volkskas, United and Allied into Absa.

They see Stanbic and Nedcor forming a R80 billion giant capable of looking a large foreign bank in the eye.

But other bankers see little good in the idea. Both Nedcor and Stanbic are successful and need no assistance, one banker says.

Both are large enough to get the economies of scale which size brings, and there is little to be gained by a merger.

They also have different cultures. Standard retains much of its dour inheritance from the Scots who built it up.

Nedcor, by contrast, is a more vital organisation, possibly inclined to make more mistakes, but with much more flair, he says.

Finally, their computers are different.

Saambou deal for court as peace overtures are made

S/Times (Bus Times)

19/5/91.

(58)

NEW SOUTH AFRICA INVESTMENTS (NSA), the associate company in SegeAlliance held by Jan Erasmus, is going to court to contest shareholders' approval of the Saambou-Fedlife merger deal.

The action may be supported by Trafalgar and Senbank.

NSA will try to have Saambou shareholders' decision this week to go with Fedlife annulled on the grounds of "other irregularities not related to the question of voting rights".

Henry Vorster says on behalf of NSA: "We will cite as respondents the chairman of the meeting, Hendrik Sloet, Saambou, Investec and such other parties perceived to benefit from the result."

Majority

Mr Vorster represented Metropolitan Life and other minorities at the shareholders' meeting. He called the Fedlife transaction illegal under section 37 of the Deposit-Taking Institutions Act.

Saambou chairman Hendrik Sloet replied that the deal had ministerial approval.

NSA managing director Hardy Joubert says: "We feel aggrieved that Investec was allowed to vote our shares. If we had the right to vote these shares, the motion to approve the Fedlife deal would have been defeated by a 12-million majority."

Mr Joubert says NSA bought a large block of Saambou shares from Volkskas with an interim loan from Investec. A clause in

DIRK TIEMANN

Mr Joubert says the quarrel is not with Fedlife.

"We would like to reach an amicable agreement with Fedlife which will benefit all our shareholders."

The new Saambou-Fedlife group is also leaving the door open to SegeAlliance.

Fedlife deputy general manager Dennis Paizes says: "They are valuable to us and we can work with them. Our wish is to help Saambou back to profitability. Their profits will benefit immediately by R1-million annually."

A conciliatory message also comes from Saambou managing director Johan Myburgh: "I am open for business. We still have a good association with them."

Mr Erasmus told Business Times last week that he would be interested in working with Saambou and Fedlife. There was talk of the formation of an independent financial services group with assets worth R8-billion, consisting of Fedlife, Saambou and Prestasi.

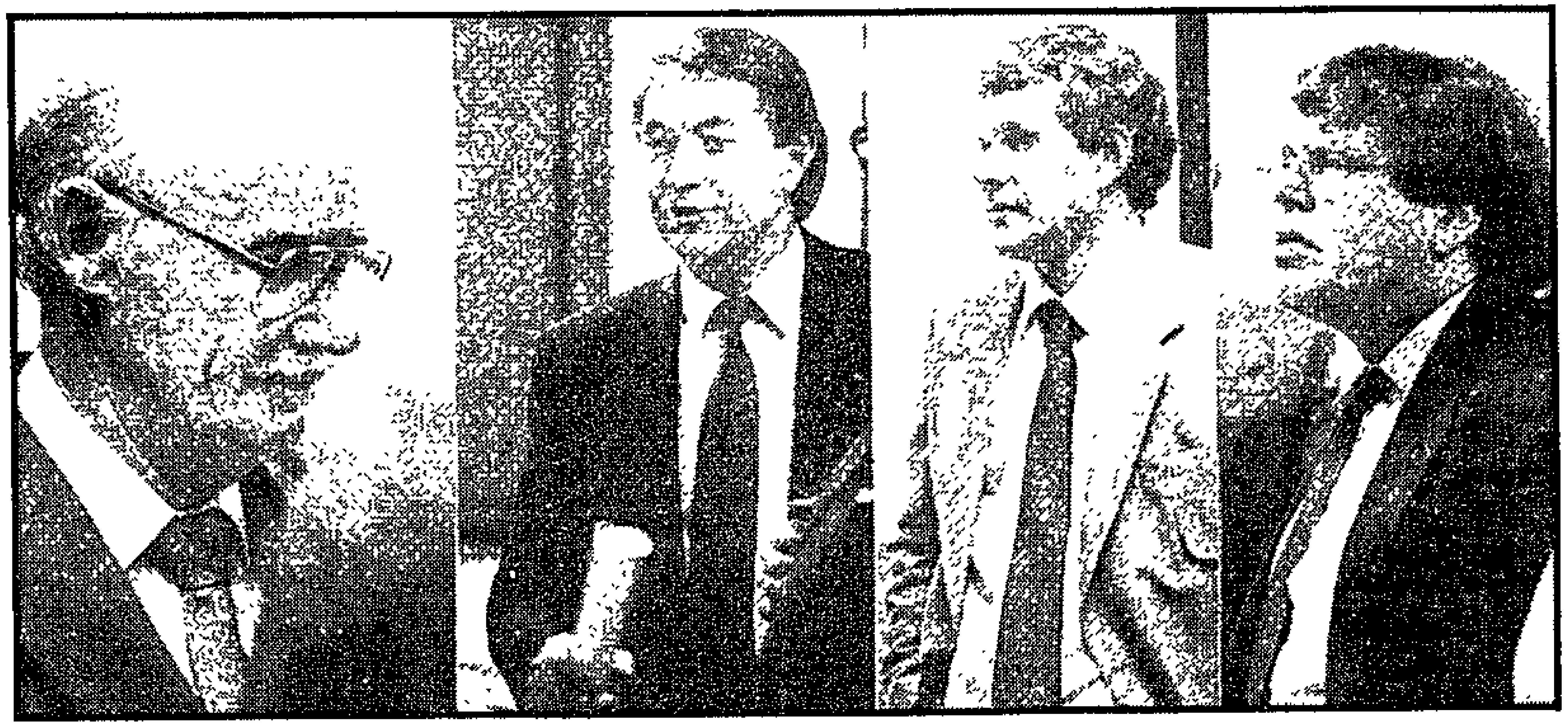
However at the shareholders' meeting he was an outspoken opponent of the Saambou deal with Fedlife.

Firing

Mr Van der Merwe says he will support any legal action by NSA. Senbank holds about 9% of Saambou through Vendu Finance and has been advising Trafalgar Corporate Finance and Prestasi.

Mr Van der Merwe says: "The deal was rushed through to prevent a takeover."

Because Investec voted in support of Fedlife, are there



Players for high stakes: HIGH HENDRIK SLOET, HENNIE van der MERWE, PIETER HOUGAARD, MICHAEL KATZ Picture: GARTH LUMLEY

Additional information

i) Stock of consumable stores on hand at 31 March 1990 amounts to R640.

ii) A refundable deposit of R1 500 is included in the figure for rent.

iii) Included in service income is an amount of R2 000 for work still to be done by the business.

iv) Included in insurance is an amount of R4 176 which is an annual premium on a motor vehicle policy taken out on 1 June 1989.

v) Advertising costing R181 was incorrectly debited to the salaries and wages account.

vi) The balance on the research and development account represents all costs incurred, both locally and overseas, during Joe's visit, in order to develop the new method of repairing leaking roofs. Of the total amount spent of R53 800, R27 840 was in respect of research, and the balance on developing the new technique. The new methodology resulted in income of R16 180 during the current financial year. Joe estimates that income attributable to the advanced technique will be as follows:

financial year ended 31 March 1991	R396 000
financial year ended 31 March 1992	243 000

He believes that Kiwi Roofing will begin to lose its competitive advantage after 31 March 1992 as competitors will begin to develop similar techniques.

vii) Included in creditors is an amount of R7 200 received from a client on 15 March 1989 in full payment of repairs to be done. The work was completed during April 1989.

viii) Fixed assets are depreciated as follows:

equipment	20% per annum on cost
vehicles	25% per annum on reducing balance

No depreciation for the current year has been entered in the accounting records.

All equipment (except for equipment costing R16 800 which was acquired on 31 January 1990), was acquired on 1 April 1988 . The balance on the accumulated depreciation account at 31 March 1989 was incorrectly credited to the equipment at cost, account.

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FASB86 may be ignored.

Indicate all of the journal entry(ies)(without narrations) required to give effect to your recommended treatment. (13 marks)

period of the loan and for 18 months thereafter.

Quarrel

This meant that Prestasi, a member of the NSA group which has a 13% shareholding in Saambou, was also deprived of its voting rights. Prestasi's Mr Erasmus was forced to address the meeting on behalf of another small shareholder opposing the Fedlife deal.

Mr Joubert says: "We signed the agreement under protest, but were forced to have the loan available to avoid embarrassment. The loan has since been repaid and the urgent court application on Wednesday morning was to have the 18-month clause cancelled."

But the application was unsuccessfull and the court ruled that Investec had the right to vote.

Investec supported the Fedlife deal whereby Fedlife sold Planet Finance Company to Saambou for R55-million in return for convertible debentures worth the same amount. On conversion Fedlife would have 30% of Saambou's equity.

Mr Joubert says Investec had no need to exercise the vote because the loan had been repaid with interest and there was no risk to Investec.

He says: "It would have been a different story had we been indebted to them. Then they could have voted in favour of Fedlife to protect their own interests."

gether" This cannot be ruled out. They were talking to one another a year ago, but nothing came of it.

The Senbank-Trafalgar-Prestasi camp tried hard to derail a Fedlife-Saambou deal.

Mr Van der Merwe, on behalf of Vendu Finance, put the Saambou directors in the firing line when he said that they had not answered several points raised at the meeting about the disadvantages of the deal.

Mr Sloet rejected all accusations of negligence, saying: "The directors are being slaughtered and called dishonest, but the truth is that this is a power struggle with Saambou as the prize.

Swords

"Many organisations want Saambou now, but we were only looking for a a partner who would help us grow. Saambou will continue in its present form if the Fedlife deal goes through.

"Both sides will benefit and I am sorry that swords are being crossed by parties with vested interests. The idea of the Fedlife deal was to prevent such a struggle.

"There was not even a legal requirement for us to go to the shareholders, but we did so. Now shareholders must vote for what is in the interest of Saambou."

All three proposals put to the vote were passed by a 61% majority.

Another R33m in AA Mutual payout

S Times (Bus Times) 19/5/91

By DIRK TIEMANN

CREDITORS and policyholders with claims against the defunct AA Mutual's short-term insurance business should ensure their whereabouts are known to the liquidators.

They are in line for a R33,2-million payout, to be posted in 164 493 cheques on May 31. But if experience is anything to go by, at least 10% of that amount will not be claimed.

When the first dividend payout (but third liquidation account) of 30c in the rand was made in November 1989, creditors were sent cheques valued at R32,3-million. But cheques for more than R3-million were returned.

The first two liquidation accounts were payments to the Receiver of Revenue and preferred creditors, but apparently involved only minimal amounts.

The total payout from the liquidation amounts to about R70-million if all the equalisation dividends paid to late claimants are included.

There have been three equalisation dividends totalling about R4,1-million. Creditors and policyholders who have missed both major dividends are entitled to 55c in the rand if their claims are accepted by the liquidators.

About 45 000 people will not get a cent because their dividends are less than R20. They may stand in line for a dividend later if the accumulated dividends due to them exceed R20.

58

Underwriting

The money left over after the final distribution will be paid into the Guardian's account six months after the final distribution late in 1992. Claims can still be made on this account, but any leftovers eventually go to the State.

The liquidators claim the final dividend will be about 96c in the rand. This amount includes revenue from the sale of the AA Life building at 27 Diagonal Street for what the liquidators hope will be about R70-million.

The final dividend will be reduced by 5,4c because of a secret "overall settlement agreement" reached among a few major creditors in February. The liquidators will pay Fedlife R12-million from the assets of the estate to be distributed among AA policyholders and other creditors.

This means that Fedlife will be refunded for part of the R35-million it paid Natie Kirsh for a major shareholding in the AA Mutual. Fedlife cancelled the deal after it discovered that the AA had huge underwriting losses. In terms of the settlement Fedlife will get R27,5-million.

The liquidators say they opted to settle and so discount potential claims against the business totalling R200-million to expedite the dividend payment and to save legal costs.

The liquidators were at one time worried that three claims for about R75-million might be decided against them. That could have cut the final dividend by 23c and bring the total payout to 70c in the rand.

Mr Kirsh will repay only about R10-million of the R35-million he received, a fact which has raised a few eyebrows.

This settlement was reached five years after the AA Mutual was put into liquidation.

AA and Crusader bed down in happy union

S|Times (Bus Times)

BRIAN BENFIELD: Knew how to avoid the errors of the past in marrying two life assurers

PERFECT mergers are like perfect marriages — each party retains its independence under joint administration and co-operation.

So it is at AVF Group, under which the AA Life and the Crusader Life assurance companies came together only last September. The honeymoon lingers 19/5/91

AVF Group chief executive Brian Benfield knows about culture clashes. He was around when two other life assurers got together in the 1980s. Their different cultures served merely to halve the combined market shares of the two.

Mr Benfield was determined not to let such matters arise in his own stable. He was brought to AA Life in 1982 when the life office was little more than a licence.

Its market share was perhaps 0,1% of the total insurance business. He estimates that the current slice is probably 20 times that.

58

Since last August, when what was the AA Life Group came to the JSE through a transmuted listing of Ocean Appliances, the group's size and structure have grown in leaps and bounds.

How did he get Anglovaal interested in being a shareholder? Did he merely knock on the door and tell the mining and industrial group it could do with a financial services division?

Mr Benfield says: "It took me nearly a year to convince them while they did their homework on us."

Anglovaal now owns 60% of AVF Group, the top company in what has become a near double-pyramid structure. AVF owns 86% of Anglovaal Insurance Holdings (AVIns).

AVIns itself holds the original 95% of AA Life, the balance being in the directors' hands. It also owns 60% of Crulife.

The Crulife get-together came only a month after the August 1990 listing.

Mr Benfield says: "I had lunch with managing director Don Rowand to get some tips on being a listed company. Shortly afterwards, we struck a partnership. It has been the smoothest merger any of us here has ever known."

Wholly owned AVIns Business Systems provides administration services to both life offices while each retains its individual marketing thrust.

"It means that the group has two branches in some areas, but real cost savings do not come from saving a few thousand rands a month on rentals by closing a branch," says Mr Benfield.

I mention that Business Systems has the capacity to provide the same services to others. Mr Benfield makes no secret that the group is seeking others to come aboard.

"The American General Corporation provides services to nine independent life offices. Administration is the biggest cost to life offices after accommodations and commissions.

"With our structure, life offices can enjoy both autonomy and the support of a greater group while keeping costs down."

Most exciting to Mr Benfield at the moment is the launch of Insurance International. South Africa has a good name in life assurance in Europe.

Reserve Bank permission to inject R7-million into 26%-held Pegasus was obtained two years ago. Pegasus was initiated by Crulife and has two heavyweight partners in Baring and Hambros.

"We have the right man in former SA lawyer Peter Simpkins at the helm now. We have launched telesales marketing of Pegasus products into the UK."

AA Life was a pioneer of direct mailshot marketing in SA and has come through a nine-year learning curve equipped to sell the expertise to others.

It is the only life office in SA to use telesales to complete sales by phone.

"We are on a new learning curve," says Mr Benfield, "but we are encouraged enough to keep going."

Atlantic Reassurance, also abroad, takes a slice of premiums in return for selling direct-marketing expertise.

"Both are embryonic, but they could be attractive rand-hedge shares one day if and when Insurance International is listed."

New-business strain presents a paradox for life offices. The more successful they are, the more share capital they need to fund the early years. Both AA Life and Crulife are relatively new life offices still on the down-trend of the strain curve.

Mr Benfield says there will possibly be a rights issue in AVF soon.

AVF has 35% of Board of Executors (BoE) and a pre-emptive right to more BoE has given the group access to merchant banking and investment services.

It will also bolster the investment performance which was not the rosiest at AA Life, whereas BoE's has been excellent.

Mr Benfield says that after the 1987 stock-market crash, investing in value-for-money second-line stocks was not a success because the market ignored them.

The group now has two general equity unit trusts and the possibility for rationalisation exists.

AVF is a financial services operation without affiliation to a banking or building society group.

I was asked not to print what Mr Benfield would like to see filling the vacancy, but it is an appealing prospect.

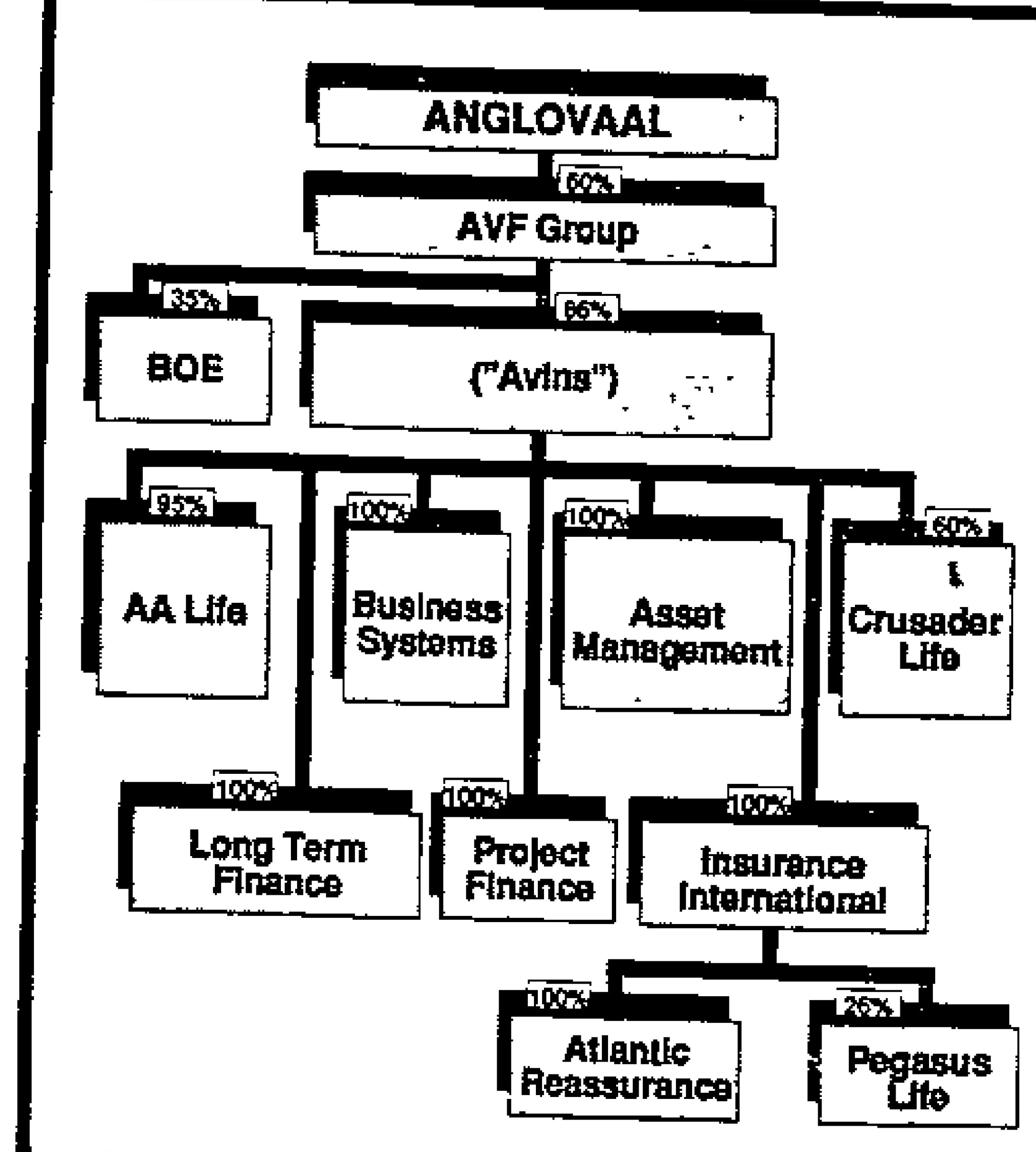
It remains true that one can hardly go wrong with the equity of life assurance. The AVF structure provides entries at the top level or lower down in the individual operations.

AA Life is unlisted, but might come to the market.

A quiet empire has been under construction for the past 10 years. It is one of the best-kept secrets around.

DIAGONAL STREET

By JULIE WALKER



On your marks

OPPORTUNITY could knock for SA's coal exporters if German environmentalists have their way. 19/5/91

The British Mining Journal reports that the sharp price jump in Soviet oil in the early 1970s obliged East Germany to mine lignite or brown coal. Production reached 270-million tons last year.

The problem is that the polluting sulphur content is 3% — more than 10 times the desired amount for clean fossil fuel. Not only has the atmosphere been polluted but site reclamation has been neglected. The cost of restoring a single 60km² barren area could be a billion marks. S|Times (Bus Times)

"If the stricter environmental regime under a unified Germany means that lignite mining in Eastern Germany is to be phased out, plans to meet the 270 Mt shortfall by importing hard coal will have major implications for world coal trade."

Govt may keep VAT on interest earnings

B Day 20/5/91 (58) (820)

LINDA ENSOR

CAPE TOWN — The confusion over the form of tax to be imposed on financial services which have been exempt from VAT has intensified, with signs pointing to government continuing with the unpopular tax on interest earnings announced by Finance Minister Barend du Plessis in his Budget.

Liberty Life joint MD Mark Winterton said there were indications that the alternative plan proposed by the banks for a tax on fees and bank charges had been rejected by Du Plessis's special advisor, Japie Jacobs, and that it was now back to a tax on the gross interest margin.

A representative of the banking industry confirmed at the weekend that the proposals for a tax on bank charges or salaries was "almost dead" as they presented too many difficulties.

However, another idea being mooted is a payroll tax to replace the 0,75% tax on the gross interest margin earned by banks.

Jacobs, who apparently made the proposal, would have to decide on what the actual percentage of payroll tax would have to be in order for government's requirements to be met. No percentage has apparently been suggested.

While it was impossible over the weekend to clarify what would be included in the definition of payroll, it is believed that this would incorporate the commissions earned by insurance agents and intermediaries, salaries, wages and fringe benefits.

Winterton said life assurers were neutral about a tax on remuneration as they had been assured that they would not pay more than a stipulated quantum of tax and that it was just the formula for payment that had to be worked out.

The banking representative said the problem with the payroll tax was where to draw the line as many financial institutions were involved in other unrelated activities, such as property services.

He said government hoped to raise between R380 m and R400m by taxing financial insitutions.

He said the route to be adopted would probably be a tax on gross interest margins, including all financial services, such as life offices and pension funds.

The confusion over the form of tax for financial services had drawn criticism from the life assurers who have stressed the need for certainty.

Old Mutual chief operating officer Gerhard van Niekerk expressed opposition to the fact that one arbitrary tax was being replaced by another, shortly after the first had been proposed.

Profits

"The proposal is not related to any structure of tax in SA and such a tax would exist on a limb on its own. There should be a uniform system of taxation in the country."

It has been estimated that the tax on gross interest margins would knock off about R131m of the combined profits of Standard Bank, First National Bank and Nedcor. Mining houses which undertake money and capital market activities have also complained about the proposed tax which would impact on an already struggling industry.

The tax on interest earnings was expected to increase the cost of having a bank account.

Tax experts criticised the proposal, saying it was a cascade tax and in conflict with the principles established by the Margo Commission.

Metpol boasts healthy growth

B Day 20/5/91.

SHARON WOOD

METROPOLITAN Life (Metpol) continued its strong growth during the six months ended March, with interim results showing a healthy 29% rise in total premium income from R250,6m to R323m. (58)

Earnings increased 22% from 20,5c a share to 25c a share during the period under review. The company forecast satisfactory growth for the whole year.

An interim dividend of 16,5c a share was declared, 22% up on the previous interim dividend of 13,5c.

In a statement, the group said it had focused its investments in a manner that would give it the flexibility to adjust to circumstances which might arise.

Investment income continued to strengthen, climbing 19% from R130,9m in the previous interim period to R155,7m.

The group said income contributions were healthy given the state of the economy and upheavals taking place within the country. Single premium income rose 80% from R13,2m to R23,8m during the period under review.

It said the positive picture was also reflected in inflow from recurring premiums, which increased 26% from R237,4m to R299,3m.

Total assets grew 24,1% to R2,34bn, compared to R1,88bn the previous year.

Metropolitan Life's board felt it was strongly placed to take advantage of what was regarded as the growth end of the insurance industry as the country moved into a new era.

HAROLD FRIDJHON in the Money Markets

Market's hyper-liquidity reduces trade to a dribble

B/Day 20/5/91 (58)

DEALERS have been moving through money market dealing rooms this week, quietly, gracefully, carefully so as not to disturb the screen-watchers, staring glazed-eyed at the unchanging numbers. Colleagues are unsure whether they have been hynotised by the TV tubes, or whether sheer boredom has lulled them into a state of doziness.

Even the chipping of 10 points off the BA rate to 16,85% from 16,95% made a clatter which reverberated through the various rooms. At least it was a sign of action.

Trade in the market has been barely a dribble. Even dealers at the money desks are laid back. They do not need to canvass the institutions or the finance houses for deposits. Instead with the hyper-liquidity in the system, funds are being offered. Lenders are looking for assets but few are being created.

Corporate borrowers are spurning BAs, liquid and non-liquid, as cheap as they are compared with the banks' prime rates. They are borrowing from the underlent banks at overnight rates, a device which debases the entire concept of prime being the rate at which banks lend money to their best customers. Prime is reserved these days for the second best.

The overnight loans are priced 17,25% and 17,75%, probably depending on the muscle of the borrower. A considerable saving compared with a so-called prime of 20%. And cheaper than a liquid BA which at current rates is an effective 18%.

The BA rate was dropped to 16,85% to attract business, but with little success.

The excess liquidity among major banks is apparent in the market's total debt to the Reserve Bank, R1,7bn on Friday after the Bank had drawn off R1,5bn though the issue of short-dated tap Treasury bills. Most of this cash is owed to the Reserve Bank by the cluster of smaller banks; the majors are all said to be very comfortable.

The Treasury bill (TB) rate appears to have about-turned and seems to be on the way down again under the pressure of demand for assets. It was 16,86% at the beginning of April, drifting down to 16,61% (compared with its re-discount rate of 17,5%). The rate shot up to 16,73% after Governor Chris Stals reiterated his determination to hold Bank rate, at least for a further few months.

But the demand for assets pushed down the TB rate to 16,66% (discount) on Friday when R372m was bid for the 130m bills on offer. In the prevailing climate TBs are an excellent investment — if you can get them.

Reports from the market indicate that the sale of negotiable certificates of deposit (CDs) is not a supermarket line at present. Some demand exists for CDs in the three and six months areas, but takers are scarce for one year paper.

□□□□

I understand that an amicable truce has been achieved between the Reserve Bank and the deposit-taking institutions. (Just to gen you up, these are what we lesser mortals, more accustomed to reading unoffical literature than translating Government Gazette officialese, call banks. They are no longer banks but deposit-taking institutions.)

Bankers (DTI-ers?) and regulators got together last week and, in diplomatic language, had wide-ranging fruitful discussions. Both sides, I believe, spoke their minds freely with the bankers explaining the technical implications of Circulars 9 and 10 on the realities of business. The Reserve Bank representatives patiently explained what the Bank was trying to achieve, claiming that the effects of the regulations were not as onerous as had been thought.

The outcome of the talks was said to be very satisfactory with the officials undertaking that in future regulatory moves would be discussed with the deposit-taking institutions before, and not after, rules and regulations were drafted.

Storm clouds no longer overhang tea cups.

Metlife (SS) forges ahead

Star 20/5/91

Metropolitan Life continues to be one of the stronger performers in the insurance sector, with premium income surging 29 percent from R250,6 million to R323 million in the six months to March. Earnings rose from 20,50c to 25c a share.

An interim dividend of 16,5c a share has been declared (13,5c).

Income contributions are healthy, given the state of the economy.

Single premium income shot up 80 percent from R13 million to R23 million.

Recurring premiums increased 26 percent from R237 million to R299 million over the half-year.

Investment income also reflects a strengthening position, climbing 19 percent to R155,6 million (R130,8 million).

Assets amount to R2,34 billion (R1,88 billion).

The group believes it has strategically focused its investments in a manner that will give it the flexibility to adjust to changing circumstances. — Sapa.

EPBS reserves up by 40 percent

58

Finance Staff Star 20/5/91

The EP Building Society boosted its reserves by a record 40 percent in the 1990/1991 financial year.

Reserves in excess of statutory requirements give it a free hand to go ahead with a number of strategic options.

Chief executive Trevor Jennings says the achievement of strategic goals contributed to a successful year.

Reserves increased by R8 million. With the addition of long-term funding in the form of debentures, total reserves are in excess of R34 million. Assets grew 22 percent.

Trafalgar's offer for Saambou withdrawn

By Ann Crotty Star 20/5/91

(58)

Latest development in the Saambou battle is today's announcement that the intended offer by Trafalgar (reported on April 26) may be regarded as withdrawn.

The announcement by Saambou says the Securities Regulation Panel (SRP) has advised that after approval of the Planet Finance transaction, the Trafalgar offer is no longer operative.

The withdrawal comes before the second Trafalgar offer had been finalised. The offer was to open on June 3 and close on June 21.

At end-April, Trafalgar said it was making a conditional offer for 30 percent of Saambou at 180c a share.

(In January, Trafalgar surprised the market with a conditional offer to buy 30 percent of Saambou at 140c a share. That offer resulted in Trafalgar building up a stake of only three percent).

A formal offer could not be made to Saambou shareholders because it had not been passed by the SRP. Trafalgar's Pieter Hougaard says the necessary documents were still being processed.

Although Trafalgar had reserved the right to waive the conditions attached to the offer, chief of which was that the Planet transaction would not be implemented, it seems this waiver was not recognised by the SRP.

Mr Hougaard says both the outcome of last Wednesday's special shareholders meeting and the earlier court judgment are being contested, with an urgent hearing to the Appellate Division expected this week.

The issue in dispute appears to be whether the registered owner of a share is the only party entitled to vote that share.

Although Prestasi associate NSA owns 13 million Saambou shares, the voting rights attached to them had been ceded to Investec, which had funded their acquisition.

It seems Investec provided the funds on condition it would hold the voting rights for 18 months after NSA had effected payment for the shares.

Mr Hougaard says the parties opposed to the Planet transaction hold 35 percent of the Saambou shares.

Wednesday's meeting did not allow the registered owners of 15 percent of Saambou to vote.

Rates under pressure in flush money market

ANDREW GILL (58)

RATES continued to come under pressure in a flush money market yesterday as demand for short term paper failed to subside.

The 90-day liquid BA rate slipped five points to 17,80% as intense demand for currently rare scrip prompted what sellers there were to cut rates further.

It was quoted even lower at 17,75% earlier in the day.

Dealers said strong demand on the short side and a dearth of interest in anything longer than six months was largely because of the outlook for a Bank rate cut in the coming months after governor Chris Stals restated his intention to keep rates higher for a while longer.

It was also partly because political uncertainty was halting any moves into the longer side of the market.

The demand was exacerbated by upcoming maturities of issues. Buyers were looking to re-invest in paper.

□ The money market shortage (bank's debt to the Reserve Bank) held virtually unchanged on Saturday at R1,691bn, only R4m lower than Friday.

Interest earnings likely to be taxed

(58) LINDA ENSOR (220)

CAPE TOWN — While no finality had been reached on the form the tax on financial institutions would take, it appeared at this stage that the original idea of a tax on interest earnings would be adopted, Finance Minister Barend du Plessis' special adviser Japie Jacobs said yesterday.

Du Plessis announced in his Budget that a 0,75% tax on the gross margin on interest earnings would be imposed as an alternative to VAT from which financial institutions have been exempted.

Jacobs said this appeared to be the best solution to the problem of a tax base for financial institutions, but emphasised that it was one that had emerged from continuing discussions with the industry. He had not dictated what form the tax should take, he said. BIDay 21/5/91

Other options considered were a tax on bank charges and a payroll tax.

Were government to go ahead with a tax on interest earnings, there would be no reason to reconsider the rate at 0,75% nor the fact that there would be no tax deductions available, Jacobs said.

However, the tax on interest earnings did pose certain problems such as the stage at which it would be imposed.

Another problem related to instances where government stock was issued at a discount and where there was an element of capital gain in the transaction.

Furthermore, the question of how the banks could pass on the tax to the users of finance still had to be worked out.

Jacobs said there were various ways of passing on a tax on interest earned by a deposit-taking institution, for instance a higher lending rate, lower deposit rate or bank charges and commissions.

Perm tradition will continue - Hibbit

Sowetan 21/5/91.

58

By JOSHUA RABOROKO

NEWLY appointed deputy managing director of the SA Perm Mr Peter Hibbit is prepared to play a major role in bringing about socio-economic changes in the black community.

He would ensure that the Perm would continue to help poor and disadvantaged blacks obtain affordable homes and financial assistance.

Hibbit (41) got the job after the flamboyant managing director, Mr Bob Tucker's, shock resignation.

He is tipped to take over as MD from July 1.

Tucker's resignation follows the restructuring of the Nedcor group, which includes the Perm and Nedbank.

The Perm now falls under the new Nedcor Banking Division with Nedbank, Nedfin and computer company Pyraned.

Exiles

Hibbit said the country needed two million homes for blacks. The Perm would continue to make sure that "affordable homes were built even for exiles returning to South Africa".

However violence and anarchy had a hidden cost - homes.

Millions of rands have been set aside to help the poor and disadvantaged, but although intentions were good, very little was happening on the ground.

The Perm could not address the squatter problem as that was a matter for the Government and the local authorities, according to Hibbit.

However it would strive to make sure that homes were built for the poor.

Referring to the "risk factor", a term often applied to poor and disadvantaged blacks, he said: "We will do all we can to help eradicate that factor.

"We do not discriminate in terms of race, sex, religion and creed."

Examples were housing programmes undertaken by the Perm in Daveyton and Vosloorus on the East Rand where low-cost homes and a shopping complex were to be built.

Scenario

He said the Perm had presented a political and economic scenario to a number of influential leaders in the past four months. These have included the executives of ANC, PAC, Azapo, Cosatu and Nactu and leading business interests.

The Perm looked at the social, political and economic challenges facing South Africa.

Hibbit believed that although some issues had been addressed, most of the socio-economic problems still had to be tackled.

Political freedom had to an extent been gained, but socio-economic circumstances had become worse, he said.

Education and training had continued to play pivotal roles.

The improvement of skills and acquisition of new ones was encouraged. Blacks have been promoted to managerial levels and that policy was to be continued.

The Perm has 150 branches, 90 sub-branches and 350 agents countrywide.

Rationalisation had been on the cards since Nedbank teamed up with the Perm in 1989.

The group had not reaped the full benefit of rationalisation and decided to speed up the process.

Hibbit said no retrenchments would take place in the forseeable future, despite the recession the country was experiencing.

He said although the Perm had not helped the informal business sector nationally, it had projects that supported small black businesses in the Cape.

Hibbit, with the Perm for four years, said the social responsibility programme would not change.

He is a chartered accountant and a leading tax consultant. He is married to Helen and the couple have two children.

PETER HIBBIT

COMPANIES

Falling demand sours lime market

B/Day 22/5/91

BRENT VON MELVILLE

THE R300m SA lime market is turning sour as demand falls for the industrial chemical in the traditional markets, specifically in steel and ferrochrome production and gold/uranium mining.

Pretoria Portland Cement (PPC) says its lime sales were down 14% for the first six months to March, representing a dip to 25%, from 29%, of the group's total sales from the comparable period last year. Total sales, including cement, were up slightly to R377m for the half-year.

PPC, SA's largest lime producer, produces about one-million tons annually, about 62% of SA's lime requirements. This is under 50% of capacity of about 2,2 million tons. Anglo Alpha's Union Lime produces about 32% of requirements and Blue Circle makes up the rest.

PPC says there have been significant reductions in demand for lime particularly from the steel industry, which represents about 40% of sales.

Lime division technical manager Brian Lowther says demand from Iscor fell because of a normal blast furnace overhaul over the past six months and Highveld Steel was "definitely not running at full production".

Lowther said demand from the ferrochromium industry was also way down compared with prior levels.

The shutdown of certain chemical and uranium plants and the reduced demand from the gold mining industry was also having a marked effect on lime sales.

Fedvolks reverses its previous year's slide

B/Day 22/5/91. (58)

MARCIA KLEIN

A STRONG portfolio of investments contributed to industrial giant Federale Volksbeleggings (Fedvolks) turning in a 30% increase in earnings in the year to end-March.

Fedvolks, which delisted in September last year to become a wholly owned Sankorp subsidiary, reported a 30% rise in attributable profit to R124m (R95m) after earnings had plunged by 35% in the year to end-March 1990.

Fedvolks companies include Fedfood, SA Druggists, Interleisure, Priceforbes, Avis, Teljoy, Interpark, Fedics and motor components companies.

MD Peet van der Walt said yesterday he was very happy with the results, although they had come off a low base and there were certain rationalisation benefits. He was especially pleased as conditions had been extremely tough after June last year.

The group's balance sheet had been improved with gearing down from 63% in 1990 to 38% at the March year-end.

Van der Walt said that the Priceforbes Group, Interleisure, Trichamp and Fedfood achieved favourable results in spite of a very difficult economic climate. All the other companies reported stable results, except SA Druggists and Avis Rent a Car, which were lower than expected.

He said SA Druggists, whose earnings fell by 12% to R35,6m, was "hard hit by shrinkage". While Avis Lease had done well, Avis Rent a Car "felt the effect of the high interest rate, a poor second-hand vehicle market, a decline in the car rental market and pervading thefts".

During the year the group rationalised by selling its interests in TEK appliances to Sankorp, AFI to management, Febisco to Royal and the Fedfood Namibian fishing operations. It sold the Massey-Ferguson franchise to Boeresake.

New investments included Fedics taking a 40% stake in Protea Hotels to extend the food services part of the business, and Fedfood acquiring Sea Plant Products, Patoma and Mango Man.

Fedvolks made several key management appointments, including Mike Egan as Interleisure MD and Johan van der Walt as SA Druggists executive chairman.

The group having become much more focused and with a strongly balanced portfolio in four basic growth areas, Van der Walt said he was confident of real growth in attributable income in financial 1992.

Saambou legal battle avoidable

Star 22/5/91.

Diagonal Street

58

ANN CROTTY

If good sense does not prevail all of the parties to the Saambou/Fedsure deal could soon be involved in a protracted money-consuming legal battle.

The parties involved are, on the one hand Saambou, Fedsure and Investec, and the other NSA (and its associate Prestasi), Senbank and Trafalgar.

Given that all of the parties have indicated that they are happy with the long-term operational implications of a tie-up between Saambou and Fedsure, a legal battle would indeed be a waste of resources.

What appears to be at issue are the terms of the arrangement between NSA and Investec whereby Investec provided NSA with the funds necessary to purchase 12 million Saambou shares. The purchase was effected last August when Saambou was trading at around 120c.

Probably more important, and also at issue, are the terms of the transaction that will see Saambou acquiring Planet Finance from Fedsure in return for the issue of 39 million convertible debentures. These CDs would, on conversion, give Fedsure a 30 percent stake in Saambou.

NSA, and other parties which claim to hold 35 percent of the Saambou shares, argue that they are not against the Fedsure transaction but are against the way it is being implemented. They feel that the terms agreed to are onerous for Saambou.

Specific criticisms are:

- Fedsure has a 3-year option to convert the CDs into shares without any obligation on its part. Saambou's interest payments on the CDs will cost R1 million less per year than the income it earns from Planet Finance so in effect Fedsure is paying R1 million a year for the option. Analysts argue that the option is worth considerably more.
- As guarantee for the 39 million CDs, Saambou has had to pledge shares, loan accounts and 51 percent of Saampro to Fedsure. These assets are worth over R300 million compared with the approximate R55 million valuation of the CDs.

In theory the pledge could be activated if Saambou, for whatever reason, missed an interest payment on the CDs.

Also in theory, the guarantee could make it extremely difficult for Saambou to raise capital. This would possibly make it reliant on Fedsure who has given no undertaking that it would, at any stage, provide capital although much has been said about Saambou now having a partner with a considerably stronger capital base.

The opposing party believes that Saambou agreed to the conditions because it was very keen to get some sort of white knight.

No doubt, NSA similarly agreed to relinquish the voting rights attached to the 12 million shares because it was very keen to get hold of a significant stake in Saambou.

According to market sources, NSA/Prestasi had attempted unsuccessfully to make its own play on Saambou early last year. Presumably the acquisition of these shares was with the intention of making another play which was then frustrated by the entry of Fedsure.

(Senbank repaid the loan on around May 6, but Investec is claiming the voting rights for another 18 months from that date. This raises the question of why Senbank would pay for shares the voting rights to which were in dispute.)

It seems that the NSA camp is arguing that Investec was not ceded the voting rights but was given power of attorney which is revocable. However Investec claims that the voting issue was an express term of a contract in which Investec was acting not as an agent but as a principal.

At one stage shortly before last Wednesday's meeting there seemed to be a possiblity that NSA would pay Investec R300 000 for the voting rights but Investec refused to accept the cheque when it was presented.

If the dispute over the Saambou/Planet transaction can be resolved it might become easier to set an acceptable price on the voting rights.

As Fedsure is keen to familiarise itself with Saambou, it might be difficult to negotiate the three-year option period but there should be scope for review of the R300 million guarantee.

Southern 58 turns in solid performance

Star 22/5/91.

Southern Life experienced a solid sales performance for the financial year ended March 1991 with total new business reaching a record R863 million, and new recurring premium income increasing by 24 percent.

New recurring business, which life offices consider the lifeblood of their business, increased from R291 million to R360 million.

"A positive feature is that the growth was not isolated to any one area of our operation," said Chris Liddle, executive director (Life Division).

"The life division increased new recurring premium income by 22 percent and the employee benefits division by 27 percent over the previous financial year." — Sapa.

Southern boosts premium income

CTimes 24/5/91. 58

Financial Staff

SOUTHERN LIFE experienced a solid sales performance for the financial year ended March 1991, with total new business reaching a record R863m and new recurring premium income increasing by 24%.

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"A positive feature is that the growth was not isolated to any one area of our operation," said Chris Liddle, executive director (life division) of the Southern.

"The life division increased new recurring premium income by 22% and the employee benefits division by 27%, over the previous financial year."

He attributed the growth in individual business to increased support from the broker market which was "a reflection of our ability to provide products of value and excellent service levels in a highly competitive environment".

"This growth was achieved against the backdrop of a difficult economic environment where high interest rates led to a decline in personal disposable income.

"This, together with the unrest which affected sales in certain areas, make the results very satisfactory," said Liddle.

New single premium business increased by 14% to R503m.

Adrian Arnott, executive director (employee benefits), attributed their gains to the stable performance of the Southern's Guaranteed Fund which had found favour with worker representatives and also enjoyed solid support from brokers and consulting actuaries.

AA Life and Cusaf agree on purchase of company

LIZ ROUSE 58

COMMERCIAL Union Assurance (Cusaf) and AA Life Assurance Company have reached agreement in principle on the purchase by Cusaf of AA Life Unit Trust Management (AALUMAN), the management company for AA Life Equity Growth Fund (Allegro).

This agreement follows on the recent acquisition of 35% of Board of Executors (BoE) by AVF Group. BoE, which manages AA Life's investment portfolios, also manages it own BoE unit trust and two unit trust management companies in the AVF Group required rationalisation.

Cusaf, which is SA's largest composite insurer, underwriting both long-term and short-term insurance, has for some time been diversifying its interests in the financial services industry and considered that the flotation of a unit trust would be the next logical step. BDay 23/5/91

The present purchase is thought appropriate as AALUMAN has already completed the development phase of Allegro.

Other than the fact that AALUMAN will now be managed by Cusaf, Allegro unit trust holders will not be affected by this change.

Cusaf MD John Kinvig says the assurer's investment performance is clearly illustrated by the reputation it has established in its managed fund for pensions business and he is confident that its expertise can be carried into the area of unit trust management.

It is intended that the names of AALUMAN and Allegro will be changed to incorporate Commercial Union's name.

Banks 'must adapt to new loans trend'

B/Day 23/5/91

ROBERT GENTLE

SA BANKS should recognise the inevitability of companies borrowing from and lending directly to each other and the public — a process known as disintermediation — and start adapting, a visiting Harvard Business School professor said yesterday.

Andre Perold, professor of business administration at the Harvard Business School in the US, said: "Disintermediation is going to come. The only question is how quickly." (58)

He was speaking after a one-day workshop organised jointly by Laird Associates and Andy Andrews, director of the Graduate Institute of Management and Technology.

He said banks should concentrate on making risky loans and providing risk capital to the economy and leave the capital markets to handle the riskless loans. "The capital market will handle these safe loans without intermediaries. They don't need the bankers," said Perold.

Banks should move into areas in which they could add value, such as credit enhancement and customised risk management products, he said.

Toyota SA is No 3

B/Day 23/5/91

MARC HASENFUSS

TOYOTA SA was the third largest producer of Toyota vehicles in the world in 1990 after Japan and the US, statistics released by the Toyota Motor Corporation of Japan show.

Toyota's manufacturing plant near Durban produced 91 030 units last year (excluding Hino trucks), which constituted 21,3% of the total number of vehicles produced from completely-knocked-down (CKD) kits worldwide.

Toyota SA produced almost 50% more units than its Australian counterparts.

Other African production did not compare.

Kenya produced 2 538 vehicles, while Zimbabwe and Zambia managed 280 and 176 units respectively.

NEWS IN BRIEF

Road freight down

THE road freight industry has made a slow start to the year with reduced tonnages carried in January this year reflecting the extent of the economic slowdown.

Central Statistical Service figures released yesterday showed a 14% drop in the total tonnage of goods carried by public transporters during January 1991 to 29,3-million (34,1-million) tons.

However, with the average tariff a ton increasing from R8,18 to R11,47, total transport earnings were boosted 20% to R337m in January 1991 compared to R279m in January last year.

Council workers fired

B/Day 23/5/91.

SEVENTY-five black municipal workers — some with up to 18 years' service — were fired by the Ventersdorp Town Council last week, said Operation Masakhane for the Homeless executive committee member Eric Ngeleza.

Legal advice had been taken on the matter. He said 16 of the workers had been rehired, although they were being treated as new workers, thus losing pensions and benefits.

No-one was available for comment at the town council.

UK's GDP shows drop

BRITAIN'S gross domestic product (GDP) fell 0,6% between the last quarter of 1990 and the first quarter of 1991, figures released in London yesterday by the Central Statistical Office said.

The decline was less than the last two quarterly drops of 1,5% and 0,9% respectively. Compared with the first quarter of 1990, the British economy has contracted by 2,5%.

Rise in German GNP

WESTERN Germany's gross national product (GNP) grew between 3% and 4% in price-adjusted terms during the first quarter of 1991, the Economics Ministry reported in Bonn yesterday, while in eastern Germany "the downward development of overall economic activity hasn't yet reached its low point".

Reports Business Day Reporter AP-DJ Sapa-Reuter

Further talks to follow summit

B Day 23/5/91

Business Day Reporter

PRESIDENT F W de Klerk said last night he envisaged follow-up meetings after this weekend's summit on violence which is expected to be boycotted by most extra-parliamentary groups.

De Klerk said in a statement the summit was never intended to be "a final discussion during which final solutions had to be found".

His statement confirmed expectations that government would be willing to become involved in meetings after the summit.

"It is and remains an important step in the process of consultation. The road ahead will be discussed in depth and the contributions of all involved are needed," De Klerk said.

"If there are political groupings that have decided against attending the conference on political grounds or because of the question of traditional weapons, they will have to bear the responsibliity for their non-participation in a peace meeting intended to deal with the problem of violence in a solution-oriented manner," De Klerk said.

PATRICK BULGER reports that Afrikaner Weerstandsbeweging (AWB) leader Eugene Terre'Blanche said on Tuesday he would attend De Klerk's summit.

Right-wing sources yesterday expressed amazement at Terre'-Blanche's decision to attend which, they said, was out of step with the refusal by other conservative groups, including the CP, to attend.

The Civics Association of Southern Transvaal (Cast) and the PAC confirmed yesterday they were joining the ANC in not attending.

Meanwhile the SA Council of Churches (SACC) yesterday formally pulled out of the summit but remained optimistic that behind-the-scenes moves to get political parties involved in a peace process would succeed, SACC general secretary Frank Chikane said.

Addressing a news conference in Johannesburg, Chikane said religious leaders who met on Tuesday to draw up proposals for getting peace talks back on track had found that they could not attend the summit.

"Religious leaders are convinced that the problems of violence are of such magnitude that they cannot be resolved without the participation of all the parties and organisations involved," Chikane said.

He said it was now too late for De Klerk's summit to be redefined so as to attract wider participation.

BILLY PADDOCK reports the DP yesterday unveiled short-term proposals to be submitted to the summit. These included setting up a national network of township peace task groups representing all political movements.

Standard Chartered boss on 'return to SA'

B Day 23/5/91

MICHAEL HARTNACK

HARARE — After enjoying complete independence since 1986, Standard Bank SA might not want to resume ties with its former UK parent, Standard Chartered, when the political situation was resolved, Standard Chartered chairman Rodney Galpin said yesterday.

The Standard Chartered board is having a monthly meeting in Zimbabwe, only the second time the bank's board session has been held outside London. It met in Hong Kong last year, reports Sapa-Reuter.

Standard Chartered sold its minority stake in Standard Bank SA in 1986

Galpin said the political situation in SA now was "promising", encouraging hopes of renewed co-operation.

"I dare say that after the complete independence they have had since then they may well not want us back," said Galpin. S8

"If it looks right from the point of view of our business in the rest of Africa to have some sort of presence in SA, then I think we could probably do it, but I think at the right time," he said.

Stancha ready to return to SA when conditions permit

Star 23/5/91

(58)(64)

HARARE — UK bank Standard Chartered (Stancha), which sold its stake in Standard Bank of SA in 1986, would return to the country "if the conditions were right", Stancha chairman Rodney Galpin said yesterday.

The return of South Africa to the world community should have a beneficial economic effect on all of Southern Africa, Mr Galpin said at a news conference in Harare.

Promising

He said the political situation looked more promising.

Asked whether Stancha would return to SA, Mr Galpin said: "That's an issue that lies ahead, but if it looks right . . . having some sort of presence in South Africa, we would probably do it, but at the right time."

The Standard Chartered board is having a monthly meeting in Zimbabwe, only the second time the bank's board session has been held outside London.

It met in Hong Kong last year.

Mr Galpin, chairman and group chief executive of Standard Chartered Plc and Standard Chartered Bank, which celebrates its 100th anniversary in Zimbabwe next year, said the fact the board was meeting in Harare demonstrated the bank's commitment to Africa in general and Zimbabwe in particular.

Asked about the competition for funds between Eastern Europe and the Third World, Mr Galpin said since the euphoria over Eastern Europe 18 months ago, Africa was possibly looking more attractive, with investors seeking political stability.

"What happens in South Africa must be in people's minds," he said.

"Once it is back into the world community, it must have a beneficial effect on Southern Africa as a whole, and I think Africa, and particularly Southern Africa, are well poised for a significant step forward."

Referring to Zimbabwe's five-year economic reform programme, he said: "You have a well balanced economy, and given both sufficient international support and local determination, this initiative stands a very good chance of succeeding."

Infrastructure

He said Zimbabwe was well placed to attract foreign funds, with political stability, a good infrastructure and a healthy track record in international borrowing.

Asked about debt, he said four years ago unsecured Third World debt — largely in Latin America where Standard Chartered lacked a physical presence — amounted to 170 percent of shareholders' funds.

This was down to 23 percent, "and I think the problem has passed", Mr Galpin said. — Sapa-Reuter.

Fedvolks earnings rise 30%

ET 23/5/91

(58)

JOHANNESBURG. — A strong portfolio of investments contributed to industrial giant Federale Volksbeleggings (Fedvolks) turning in a 30% increase in earnings in the year to end-March.

Fedvolks, which delisted in September last year to become a wholly-owned Sankorp subsidiary, reported a 30% rise in attributable profit to R124m (R95m) after earnings had plunged by 35% in the year to end-March 1990.

Fedvolks companies include Fedfood, SA Druggists, Interleisure, Priceforbes, Avis, Teljoy, Interpak, Fedics, and motor component companies.

MD Peet van der Walt said he was very happy with the results, although they had come off a low base and there were certain rationalisation benefits.

The group's balance sheet had been improved with gearing down from 63% in 1990 to 38% at the March year-end.

He said the Priceforbes Group, Interleisure, Trichamp and Fedfood achieved favourable results in spite of a very difficult economic climate.

All the other companies reported stable results, except SA Druggists and Avis Rent a Car which were lower than expected.

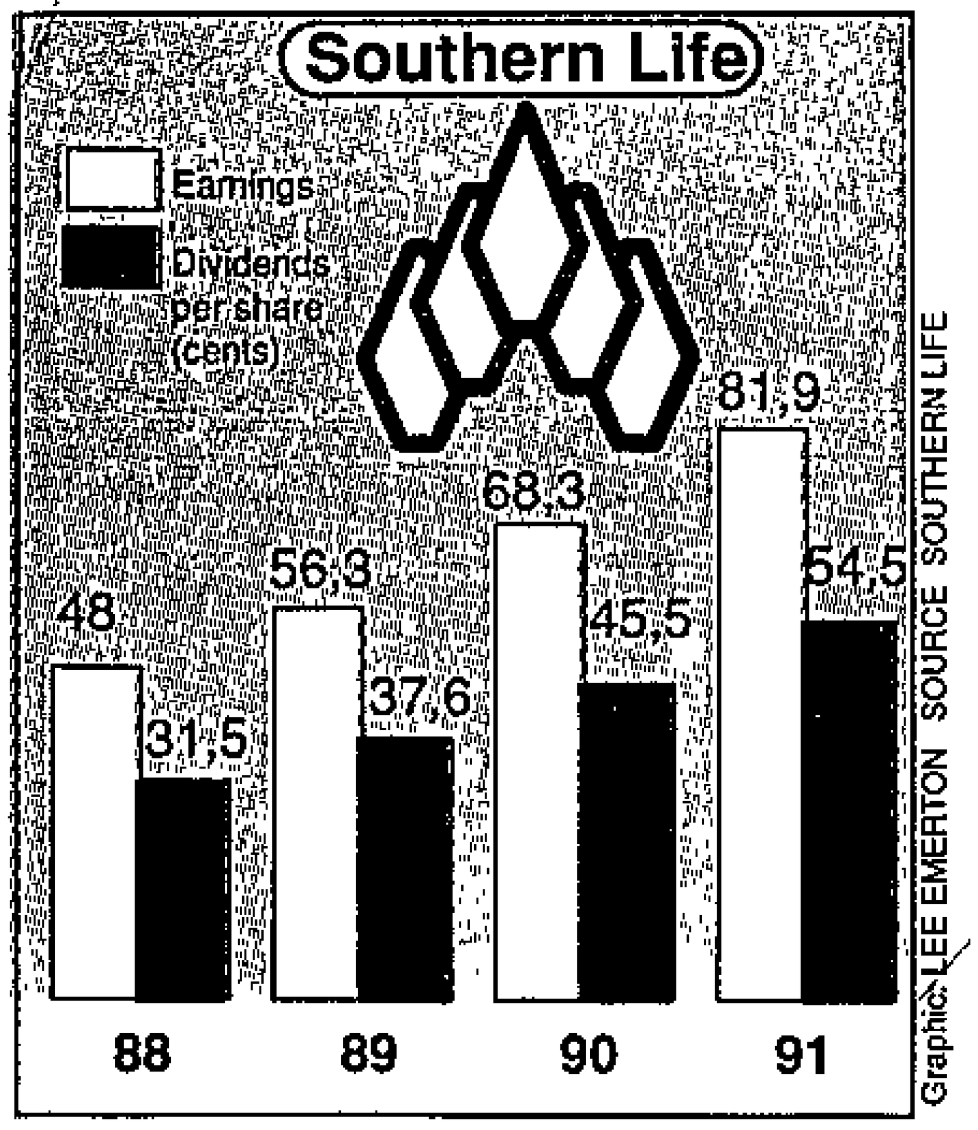
The group has become much more focused and with a strongly balanced portfolio in four basic growth areas, Van der Walt said he was confident of real growth in attributable income in financial 1992. — Sapa

Southern earnings rise 20%

(58)

B Day 24/5/91.

SEAN VAN ZYL



LIFE assurer Southern Life Association, with total assets now nudging the R15bn mark, has announced a 20% rise in attributable earnings to R138,1m for the year to end-March.

Earnings, or the taxed surplus, came in at 81,9c (68,3c) a share. The final dividend of 32c (27c) boosted the year's total dividend by 19,8% to 54,5c (45,5c) a share. The dividend cover is unchanged at 1,5 times.

Although Southern's net premium income, indicative of new business growth, climbed by 16% to R1,852bn (R1,595bn), a slowdown in the return on investments resulted in a more sedate 6,9% growth in net investment revenue to R940,4m (R879,4m) for the year.

Chairman Neal Chapman said poor investment returns on mining and mining

☐ To Page 2

Southern

B Day 24/5/91.

(58)

☐ From Page 1

financial shares resulted in the modest increase. As a result, total assets reflected marginal growth of 5,7% to R14,858bn (R14.052bn).

While Southern does not plan to reduce its current exposure to the equity market, Chapman said that in light of higher interest rates, "we may allow the liquidity to build up". Almost 60% of its equity holding was in De Beers, First National Bank, Anglos, Richemont, Rembrandt, Gencor, Barlows, Wooltru, Iscor and Foschini.

Net premiums combined with the net investment growth resulted in a total revenue inflow of R2,793bn (R2,475bn). The taxed surplus attributable to shareholders was R138m (R115m).

Chapman said the life assurer's new business totalled R863m for the year, with recurring premiums climbing by 24% to R360m (R291m). Single premium business grew at a modest 14% to R503m.

Both individual and group scheme business showed strong growth during the year at about 24%, he said. Southern's broking division had also performed "exceptionally well", while benefits paid to policyholders on death, disability, maturity and annuities had risen by 27% to R685m.

Faced with the threat of AIDS, Southern had built a separate reserve to reduce future risk. It made a further undisclosed contribution to this fund, now worth well over R100m, while claims totalling R2m had been paid from it so far.

Chapman said despite high inflation and interest rates, Southern was well-positioned in its market and shareholders could expect a real return in earnings for the current trading year.

Reichmans' drastic action

Bday 24/5/91.

MARC HASENFUSS

TRADE finance group Reichmans Limited, soon to become a wholly owned Investec subsidiary, pursued a ruthless programme of writing off all bad debts in the 15-month period ending March 1991.

Newly appointed Reichmans MD Errol Grolman said that as a result of writing off all known bad and doubtful debts, as well as two large bad debts which were reported at the interim stage, the group incurred a loss of R3,9m, or 10,7c a share.

Reichmans managed a healthy taxed profit of R11,7m, but this was wiped out by a R14,4m abnormal item.

Grolman said the abnormal item involved a repudiated insurance claim of a Ciskeian client which suffered a loss arising out of a fire. "Summons has been issued against the insurers, and Reichmans believes it prudent to provide in full for this loss against the current year's income."

No final dividend was declared. 58

Grolman said the group had relinquished its 20% interest in specialist steel merchant Van Reenen & Nicholls at a R3,9m loss because of its continuing poor performance.

This loss, with goodwill and a restraint of trade payment written off made up the R4,8m extraordinary item.

Looking ahead, Grolman said that having taken painful remedial actions, Reichmans was now in far better health with a strong balance sheet.

"We see that, with the economy recovering and a closer interaction with Investec, Reichmans should recommence a growth phase."

On the JSE yesterday Reichmans eased 2c to 110c, off its October low of 95c but a far cry from its 235c peak a year ago.

BANKORP FM 24/5/91

HEAD-HUNTING (58)

Hennie van der Merwe's departure from Bankorp at the end of next month will leave its ranks even thinner. The group lacks management depth — a problem that dates back to the failure of the late Fred du Plessis, chairman of holding company, Sanlam, to establish a line of succession. After the turbulent times Bankorp has had in recent years, Piet Liebenberg, who took over as executive chairman last June, has been unable to remedy this deficiency.

When he arrived he wanted someone for the key post of risk manager — but couldn't attract anyone with suitable skills and had temporarily to assume the responsibility

Van der Merwe

(58)

himself. The job was eventually filled by Daantjie Steyn from the TrustBank division. Now, Liebenberg plans to take on Van der Merwe's job as CE of one of the three divisions, Senbank, until he finds a replacement.

There is speculation that the job may be offered to Nedbank executive director Leon Porter, who has a long association with Liebenberg. In 1970 they co-founded Finansbank with its present MD Hannes Hamman and Laurie Korsten, one-time MD of Volkskas Merchant Bank. Porter followed Liebenberg to Nedcor in February 1987.

Another possible candidate is Doug Anderson, who headed Senbank before Liebenberg's arrival and is now CE of the group's centralised treasury. But Van der Merwe, who denies that management is thin, says: "No one is being considered as a replacement at this stage. Piet will step into my shoes fully and effectively, and can do so because of the structures that have been put into place in both Senbank and Bankorp."

Lower echelons are also depleted — partly by design. Liebenberg streamlined operations, cutting staff by 2 500, including four senior GMs. After some years which saw a

continue →

FM 24/5/91 (58)

steady stream of departures this rationalisation damaged already uncertain morale — which was perhaps responsible for subsequent departures. Van der Merwe says any damage to morale has now been repaired.

He is leaving to become joint deputy chairman of FSI Corp and its subsidiary, W & A Investment Corp. Those who know him believe this may suit his temperament more than a position in a large bank.

"Merchant banking is very hands-on," says one. "After all those years of doing his own research and making his own decisions, it must be frustrating for him to be part of a larger operation."

Several Bankorp board changes were announced this week. Executive director Derek Keys has left "at the request of Sanlam investment arm, Sankorp, to devote his full attention to Gencor," says Liebenberg. This "signals the completion of his task at Bankorp." Willem Pretorius, Metropolitan Life non-executive chairman and a former director of Bankorp and TrustBank, has been appointed a non-executive director. Bankfin CE Dolf Wright and Eben de Klerk, CE of Bankorp services division, become executive

Anderson

directors. Van der Merwe, formerly an executive director, will stay on the board as non-executive director and member of the audit committee. ■

FM 24/5/91 (58)

LONFIN FM 24/5/91

THORNY HEDGE (58)

Activities: *Investment finance company with interests in UK and SA.*
Control: *Marshall family.*
Chairman: *D C Marshall.*
Capital structure: *25m ords. Market capitalisation: R25m.*
Share market: *Price: 100c. Yield: 3,7% on dividend. 12-month high, 210c; low, 90c. Trading volume last quarter, 27 000 shares.*

Year to Dec	'87	'88	'89	'90
Cash earnings (p)	2,20	1,38	2,32	1,98
Attrib earnings (p) ...	n/a	n/a	2,85	(0,22)
Dividends (p)	1,1	1,2	1,3	0,75
Net worth (p)	78	71	78	33

Reviewing the 1988 annual report two years ago, the *FM* noted with some amazement the extraordinary rating (a then p:e of 66 and dividend yield of 1,4%), concluding that there must be some investors with greater insight to justify the run-up in London Finance & Investment (Lonfin)'s price.

Hindsight being an exact science, it is now possible to suggest an alternative explanation: namely, that local investors were so besotted with rand hedge stocks that they paid inadequate attention to changes in the portfolio profile which were undermining the very attributes they prized so highly.

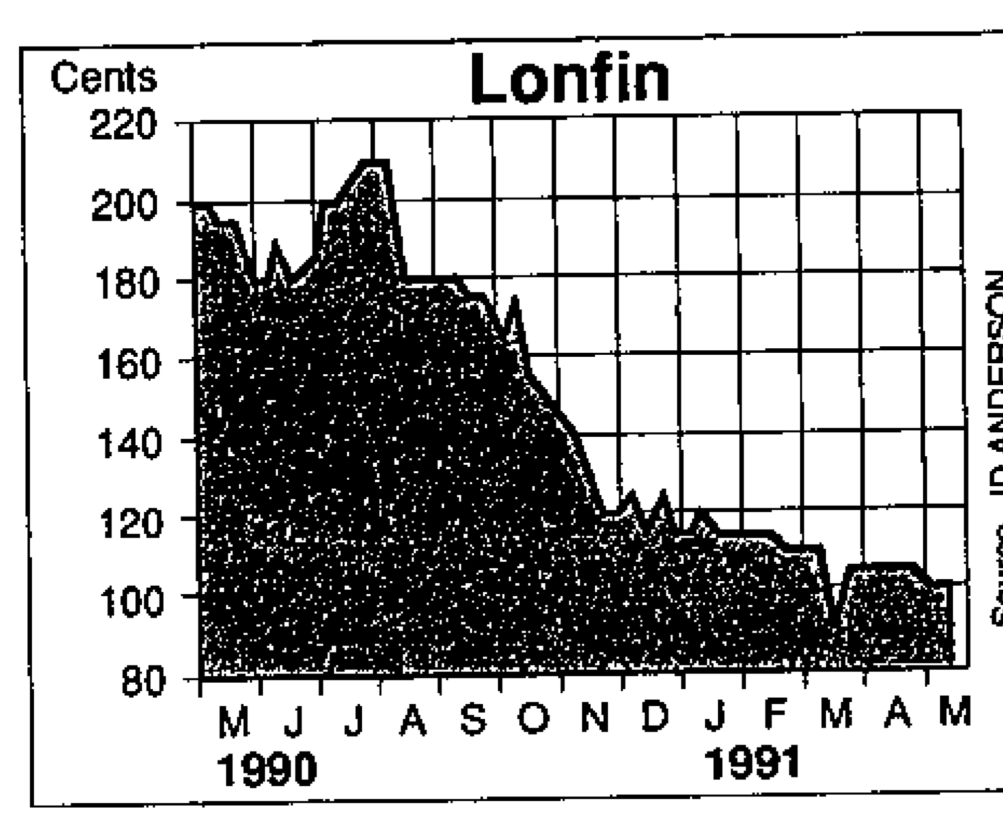
In particular, a point overlooked was the growing importance of SA-based assets and the impossibility of creating the kind of superhedge already discounted in the share price out of assets denominated in the currency against which investors were trying to hedge, even if those assets themselves had currency hedge qualities.

By the end of the 1989 financial year Barplats represented more than 51% of the portfolio, at market value. There was, of course, no way to foresee that Barplats would come apart as it did, but in the event a weak share price denominated in a weak currency exacerbated the situation in Lonfin's sterling-based financial statements, providing exactly the opposite effect to what a rand hedge is supposed to be all about.

The state of the UK economy in 1990 also sent prices of UK-based investments reeling so that during the year the total value of the portfolio was slashed by almost two-thirds — from £17,8m to £6,2m.

The fall was 58% attributable to Barplats and 42% to UK-based investments, where Western Selection was the major casualty. Barplats has of course continued its slide: in rand terms, the value of this investment has since been clipped by a further 40%.

Against this background, it is hardly surprising that Lonfin's own share price collapsed from a 1989 high of 450c to a low of 90c before recovering slightly to the present 100c. Remarkably, despite this net 78% decline, the share is still rated at a premium to the mining holding sector — a dividend yield of 3,7% (on the current R/£ commercial exchange rate) compares with the sector average of 4,5%. While its (cash-based) 10,3



times p:e is lower than the sector's 15,5, this reflects the fact that last year's payout, covered 2,6 times by cash earnings, was far more conservative than usual.

What happens next depends largely on whether the group decides to stick with its present line-up of investments, or seek greener pastures. Chairman David Marshall does not rule out change, commenting that while the group will continue to support investments where this can be justified, "we will not jeopardise our overall strategy."

Given that even at the 1989 earnings peak the return on equity (including retained earnings of associates) was under 4%, an improvement in performance should not be too difficult to achieve. *Brian Thompson*

SAAMBOU FM 24/5/91 (58)

THE SAGA IS BUILDING

Attempts to gain control of Saambou — or to form a close association with it — have led to an impasse that some of those aggrieved in the battle plan to resolve by resorting to law.

Some minority shareholders are seeking to thwart the schemes that Saambou and Fedlife proposed at last Wednesday's shareholders' meeting chaired by Saambou's Hendrik Sloet. At the meeting certain allegations and questions were directed to the Saambou board and some shareholders feel that they were left unanswered. Now, in the words of Hennie van der Merwe, CE of Senbank, "the wrongs that have been done must be righted."

Saambou chairman Sloet stated, when addressing the questions, that the transaction in question was in the best interests of Saambou and that those who opposed it possibly had ulterior motives.

Ever since Saambou was listed in 1987 its results have been poor. This record was capped by the dismal results (a loss of R24,1m but this was after substantial once-off provisions) recently released for the year ended March 31 (*Fox* May 10).

The building society has performed badly, it attracted the attention of a previously unknown organisation, Trafalgar Corporate Finance (TCF), which early this year made a bid of 140c per share in an attempt to acquire 30% of Saambou. When this failed, Trafalgar later offered to increase its bid to 180c, which is yet to be made.

Meantime, in what Trafalgar sees as a means of foiling its takeover ambitions, Saambou did a deal with Fedlife to acquire a subsidiary, Planet Finance, for R55m.

Saambou was to pay for this purchase by the issue to Fedlife of convertible debentures which, when converted, will add 39m new ordinary shares, with a present value of 140c each, to the existing 85,3m shares in issue. The effect of this is that existing ordinary shareholders will have their net asset value diluted by 46% (or 11,7% after additional value is added) after the conversion takes place.

Fedlife, for its part, dismisses the suggestion that it wished to foil Trafalgar's plans and points out that despite the dilution, the deal will increase net worth because of higher earnings and other operating and financial benefits. At last week's meeting to gain shareholders' approval for the Planet/Fedlife deal, dissension was voiced by some minorities who, but for two last-minute measures, could well have upset the resolutions.

The first is believed to be that Fedlife negotiated a "put" deal on 6,75m Saambou shares with a Cape institution. The basis was that these shares would be voted in favour of the meeting's resolutions and that, irrespective of the outcome of the meeting, the institution retained the right to "put" the block of shares to Fedlife at a price of 180c at least a year from now. In this way, Fedlife was able to guarantee these votes in favour of the Saambou proposals without necessarily having to buy further Saambou shares. Fedlife says the transaction was perfectly proper in the circumstances.

Fedlife responds that the Planet transaction was merely an exchange of assets at current value to cement the association between Fedlife and Saambou, which will remain an independent trading entity. There is no benefit for Fedlife from the sale of Planet, which was done at net asset value.

If Fedlife was prepared to pay what some believe is a premium for the block of shares, are minority shareholders not entitled to claim that their shares should be valued at more than 140 cents for the Planet deal?

It is an open secret that Investec has itself considered a Saambou takeover/merger. Its involvement arose when it agreed to finance the acquisition by two companies, Nuwe Suid-Afrikaanse Prinsipale Beleggings (NSAP) and CC Exchange (CCE), of two blocks of Saambou shares, 8,5m and 3,24m respectively.

When it came to the loan conditions, Investec insisted it retain voting powers on the shares for 18 months after the loan had been repaid. NSAP and CCE agreed to this clause being inserted. At last week's meeting, total votes for the resolutions amounted to 32,3m whereas those against were 19,7m. Contrary to the wishes of the directors of both NSAP and CCE, Investec voted in favour of the motions and not according to the owners' request.

Investec's MD Stephen Kosseff refutes this on the basis that it was an express condition of the loan that Investec retain the voting rights for 18 months after settlement. However, the *FM* learns that Investec offered to sell its voting rights to NSAP and CCE for R300 000 before the meeting. Kosseff denies this.

Investec then voted in favour of the motions. What is not clear is why Investec, which has no overt interest in the Fedlife/Saambou deal, turned away the cash. Kosseff says that there was reason to vote in favour of the deal in Saambou's best interests.

Had Investec voted against the resolutions as NSAP and CCE requested, the outcome would have meant that only 20m votes would have been cast in favour of the resolutions, with 32m against. If the 6,9m CMPF shares had also voted against, the defeat would have been greater.

We understand that litigation against Saambou is to begin shortly. A founding affidavit is to be lodged with the Supreme Court on Thursday May 23, by NSAP and CCE. The objective is to reverse the controversial resolutions. An urgent interdict is to be sought to prevent Saambou from implementing any of the resolutions.

They are to be challenged on the basis that they contravene Section 37 of the Deposit-Taking Institutions Act. The Securities Regulation Panel could be interested in some of these allegations, although Fedlife points out that it has been kept fully informed and has not raised any problems with the Fedlife/Saambou association.

Gerald Hirshon

continue →

THE RESERVE BANK FM 24/5/91 (58)

THE WOOD FOR THE TREES

A sound banking system is needed if monetary policy is to be successfully implemented. But it is important, Reserve Bank Governor Chris Stals tells the *FM*, to distinguish between central banking and the supervisory function.

For several reasons the two are closely identified. Bank supervision is implemented by a department of the Reserve Bank, based in the Bank headquarters in Pretoria and staffed with Bank personnel. Its costs are allocated out of the Bank's budget and it is headed by a GM of the Bank, who is appointed separately as Registrar of Deposit-Taking Institutions by the Minister of Finance.

Moreover, the activities overlap in crucial ways. Many of the requirements on deposit-taking institutions serve both prudential and monetary policy purposes, and any decision about the future of a failing bank requires close co-operation between the Bank, as lender of last resort, and the department.

Van Greuning

De Swardt

Stals

In two recent events, each of these areas of overlap created misunderstandings. For this reason Stals wishes to underscore the different focus of the two functions.

Registrar Hennie van Greuning points out that any open discussion of official attempts to shore up failing institutions is a watershed in banking history. Such moves are usually cloaked in secrecy. Stals has raised the topic to avoid future misunderstandings in similar circumstances.

The collapse of the Cape Investment Bank first highlighted the problem.

When already in trouble, CIB was taken over by Prima Bank. At the time it was assumed by many, including some major depositors, that because Van Greuning allowed the takeover, CIB would be underwritten by the Bank. In the event, Van Greuning applied for its liquidation when it became clear that it could not be salvaged — though the Bank covered deposits of up to R5m.

Stals has now spelt out that, in future, no decision on assisting an ailing bank will be made until after the Registrar has decided whether it is solvent. Then, because of the stress that the illiquidity of one bank places on the entire system, he may decide to support the bank. Throughout the two decision-making processes there will be close communication between Governor and Registrar.

The other event where public perception of the two separate operations was blurred was a controversial decision by the department to bring transactions in certain short-dated securities on to the balance sheet. This had important consequences for the market. It has been suggested that it was a covert attempt by the Bank to curtail credit extension.

Not so, says Stals. The decision was taken independently of him and purely for prudential purposes.

Van Greuning says that, by requiring banks to bring business previously recorded below the line on to the balance sheet, he was attempting to identify risks. An unintended consequence is that the transactions now attract reserving requirements, which means they incur additional costs for banks.

This has come about because reserving requirements, which are a prudential supervisory tool, contain a cash component, whose level is determined not on prudential grounds but by the Governor, and varied to meet the demands of monetary policy. It thus falls beyond the brief of the Registrar.

Van Greuning is confident that a way out of this impasse will soon be found.

The move was seen by many in the banking community as unduly harsh. It presumably flows from anxieties about the unmonitored price risks of specific institutions. CIB, for instance, with capital and reserves of about R40m, had R1bn off-balance sheet business. In these circumstances, a tiny shift in interest rates would have been enough to wipe out its capital and reserves.

Both the distinctions and the links between the Bank and its supervision department are historic. Originally banking supervision was the job of the Financial Institutions Office, which oversees all other participants in the financial markets. In 1987, supervision of banks and building societies was brought within the ambit of the Bank.

Deputy Governor Chris de Swardt, the first Registrar when the office moved to the Bank, explains: "It seemed logical because we deal with banks daily and are also a major market participant. So we are well placed to supervise. But it is important to distinguish between the motivations of moves emanating from the department and from the Bank."

Separation of the functions is common in international banking and is practised in Germany, Switzerland and Belgium. The US has a hybrid system where the federal government, state governments and the central bank share in the supervisory function, while in the UK both responsibilities are vested in the Bank of England.

Theoretically, in SA, the system is pure, as all banks are supervised by the Registrar, who operates from the central bank. But in practice, as the Registrar reports directly to the Minister, it has a hybrid element.

De Swardt, the link between the Registrar and the Governor, says the two work in close co-operation. But their day-to-day actions must be seen in the context of their different objectives. ■

Star 24/5/91· (58) (322)

Most insurance will attract VAT

Article 27 in a series by André Meyburgh, consultant on indirect taxation with chartered accountants KPMG Aiken & Peat.

Not all insurances will attract VAT. Any insurance in the form of retirement annuities and life assurance (as "financial services") will be exempt from VAT.

Life assurance does not, however, mean or include disability insurance or death policies. The premiums on policies for the cover of the latter two "catastrophes" will be liable to the tax.

The premiums for all other forms of insurance such as cover for cars, household contents, fixed property, or cover against loss of income and the like, will attract VAT.

The industry will also have to deal with the wide spectrum of goods which, under the general sales tax system, are free of GST but which will become liable for VAT from September 30.

Thinking this through, it becomes clear that the value of goods that were insured free of GST will not be the same once the same goods become liable to VAT.

Put another way, when it comes to an insurance claim, the goods might become under-insured if no provision were to be made to include VAT in the replacement value, which itself might be increased because of the imposition of VAT.

Between them, therefore, the insurance company and the insured will have to make sure that the insured value of goods is upgraded to meet VAT-driven replacement costs if they are not to suffer financially.

For this reason, some insurance premiums are bound to rise.

The fact that short-term insurance premiums will be subject to VAT in themselves should not on its own give rise to a 12 percent increase in premiums.

After all, insurers at present pay GST on goods which they replace for which no claim-back procedure exists.

In any event, under VAT, any tax so paid by insurance companies will be allowed as an "input credit".

Vendor policy holders will be treated differently from individual policy holders.

The fact that vendors will be paying VAT on insurance premiums will cause no pain, because they will be entitled to claim it as an "input tax" deduction.

VAT legislation furthermore provides that where any indemnity is paid by the insurance company on a claim received it may claim, as an "input tax" an amount calculated by means of the tax fraction 12/112 formula introduced earlier in this series.

The bad news is that when the insured person is compensated in cash the full amount will be liable to VAT, resulting in a lower net receipt by the insured.

In the event of the recipient being a vendor, VAT paid will be categorised as an "output tax".

Where the short-term insurance company replaces lost, stolen or damaged goods with goods of similar standard or value, the company will be charged tax on the purchase price, which may be claimed as an "input tax".

The insured vendor, on the other hand, will not pay any VAT on the goods received.

The accompanying table shows the manner in which VAT on insurance claims by vendors will be treated.

In this example a retailer insures his stock for R11 200 (amount inclusive of VAT). The goods are subsequently destroyed by fire and he submits a claim.

If the insurer had replaced the goods, he still would have paid R11 200 for the stock, and would have claimed as "input tax R1 200. The main difference in this treatment is that the retailer would have been spared VAT administration and a brief dent in his cash flow.

Where insurance brokers sell insurance on behalf of insurers, their commission will attract VAT.

In such cases, the insurer will be able to claim the commisson as an "input tax".

On the export side, logically in terms of VAT's approach to overseas matters, insurance relating to international transportation of goods or passengers will be taxable at a zero rate.

The single largest problem that insurers face with VAT relates to tax invoices.

Most premiums are paid by debit order, for which no invoices are issued.

To meet this situation, insurers will have to issue tax invoices either monthly or annually in respect of premiums to at least those insured who are vendors — who naturally must have and will demand them if they are to set off the VAT on premiums paid against "output" taxes.

The enormous administrative burden that will ensue for insurers could bring an increase in insurance premiums.

MONDAY: VAT and welfare organisations.

INSURER		**RETAILER**	
Insurers pays indemnity .... **(Inclusive of VAT)**	**R11 200**	**Retailer receives**	**R11 200**
VAT includes in the above payment	R1 200	Retailer pays "output tax"	R1 200
		Buys new stock R10 000	
		Pays VAT R1 200 (input tax)	
Claims "input tax"	R1 200	Claims "input tax" as deduction	R1 200
Net VAT payment	NIL	Net VAT payment	NIL

Southern's earnings boosted 20%

58

24/5/91

LIFE assurer Southern Life Association, with total assets now nudging the R15bn mark, has announced a 20% rise in attributable earnings to R138,1m for the year to end-March.

Earnings, or the taxed surplus, came in at 81,9c (68,3c) a share. The final dividend of 32c (27c) boosted the year's total dividend by 19,8% to 54,5c (45,5c) a share. The dividend cover is unchanged at 1,5 times.

Although Southern's net premium income, indicative of new business growth, climbed by 16% to R1,852bn (R1,595bn), a slowdown in the return on investments resulted in a more sedate 6,9% growth in net investment revenue to R940,4m (R879,4m) for the year.

Chairman Neal Chapman said poor investment returns on mining and mining financial shares resulted in the modest increase. As a result, total assets reflected marginal growth of 5,7% to R14,858bn (R14,052bn).

While Southern does not plan to reduce its current exposure to the equity market, Chapman said that in light of higher interest rates, "we may allow the liquidity to build up". Almost 60% of its equity holding was in De Beers, First National Bank, Anglos, Richemont, Rembrandt, Gencor, Barlows, Wooltru, Iscor and Foschini.

Net premiums combined with the net investment growth resulted in a total revenue inflow of R2,793bn (R2,475bn). The taxed surplus attributable to shareholders was R138m (R115m).

Chapman said the life assurer's new business totalled R863m for the year, with recurring premiums climbing by 24% to R360m (R291m). Single premium business grew at a modest 14% to R503m.

Both individual and group scheme business showed strong growth during the year at about 24%, he said. Southern's broking division had also performed "exceptionally well", while benefits paid to policyholders on death, disability, maturity and annuities had risen by 27% to R685m.

Faced with the threat of Aids, Southern had built a separate reserve to reduce future risk.It made a further undisclosed contribution to this fund, now worth well over R100m, while claims totalling R2m had been paid from it so far.

Chapman said despite high inflation and interest rates, Southern was well-positioned in its market and shareholders could expect a real return in earnings for the current trading year. — Financial Staff and Own Correspondent

Gold shares beat a retreat

ST 24/5/91

JOHANNESBURG. — Gold shares staged a cautious retreat yesterday in reaction to recent sharp gains, but industrials held their ground, dealers said.

A slip in world bullion prices from their recent highs and light profit-taking helped trim gold share gains. But dealers noted that good support for quality issues remained evident.

The **All-Gold Index** retreated to a preliminary 1 183 close from Wednesday's 1 200 finish, but the **Industrial Index** edged a touch higher to a new high of 3 584 from Wednesday's record finish of 3 582.

The **All-Share Index** slipped back to 3 105 from 3 118.

Heavyweight gold share Southvaal ended the day R1 easier at R83 and Vaal Reefs R5 lower at R200.

Among other minings, Impala platinum shed R1 at R67,50 and diamond share De Beers 60c at R78. Mining financials had Anglos R1,75 lower at R106,50.

Industrial leader Barlows closed 25c softer at R40,75 but Safren gained 25c at R62,75.

● **Capital market rates** maintained their recent harder trend.

The benchmark Eskom 11% 2007/2009 moved up further to close at 15,89% (15,88%). It started the week at 15,76%.

Volume on Wednesday totalled R1,2bn. — Reuter

Insurance scheme for education

(58)

Sowetan 24/5/91

SOWETAN REPORTER

AN insurance company has come up with a bursary scheme to help impoverished families educate their young.

Helpfin Insurance Brokers, based in Germiston, started September last year and is open to people aged between 18 and 55.

"At only R20 a month we undertake to give study bursaries of up to R2 500 to children covered by the scheme,"the director, Mr James Rogers said.

"To qualify for the benefit the family must have been a member for at least two months. However, the scheme is only opened to nuclear families. You cannot enlist members of your extended family."

As an added bonus, Rogers said the scheme also includes paying out funeral benefits should any member die. The payment range from R500 for a stillborn baby to R5 000 for members older than 14 years.

"We also give free legal advice twice to the family on any matter," he said.

HOUSE PRICES (58) FM 24/5/91

PAST THEIR PRIME?

Has residential property as a hedge against inflation finally shot its bolt? That's the question property investors are asking after several consecutive quarters of minimal real growth in house prices.

The message from the latest set of statistics compiled by United Bank is largely unchanged: the average value of residential property as an asset will continue to decline during the next year though the fall will not be as steep as it has been in the past.

United's authoritative *Quarterly Housing Review* for the first three months of the year shows that the national average price of a medium-sized house rose on a year-on-year basis by 13% to around R111 300. The price of a larger home increased by only 9% to about R155 000, while the price of a smaller home rose by 16% to around R94 750.

United economist Christo Luus says house prices, across the board, should rise by about 13% this year. However, this represents negative growth of 1% when calculated against an anticipated annual increase in the rate of inflation of 14%.

However, Luus points out that this is not nearly as great a fall as last year when, though house prices rose by 12,1%, the consumer price index showed a 14,4% increase. As a result real property values actually dropped by 2,3% last year. Though this was the overall trend, Luus stresses there are considerable regional variations.

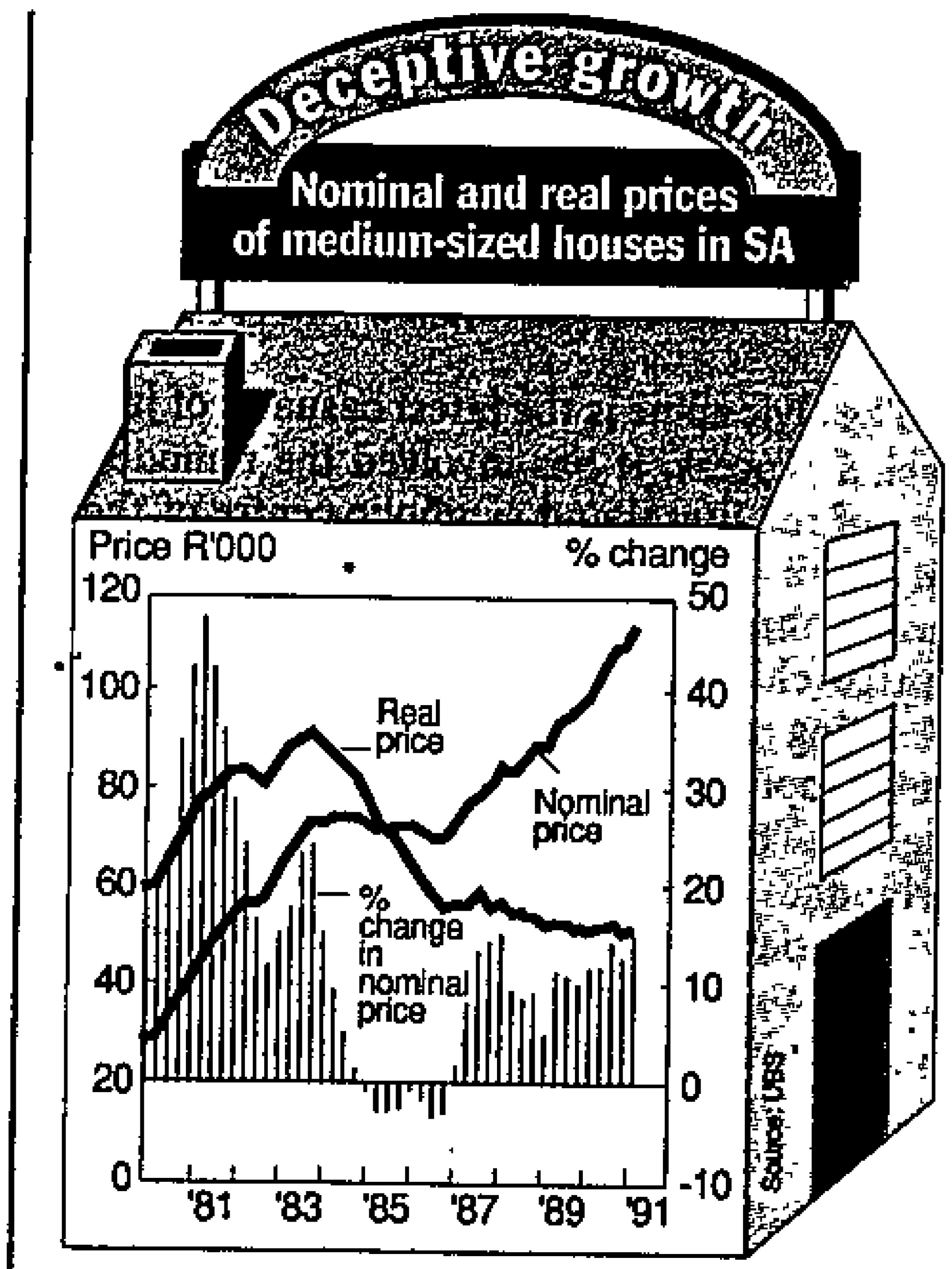
But tracked against inflation since 1983, house prices fare even more badly. They have come down in real terms by about 45% (see graph).

While this may come as depressing news to some, Luus believes the market has shown greater resilience than it might have in the present depressed economic climate. In fact he points out that in nominal terms at no stage recently have house prices actually fallen, and it is not anticipated that they will.

Even so, Luus cautions: "With the economic downswing set to persist throughout the greater part of the year and the authorities intent on maintaining positive interest rates by a substantial margin in real terms, the housing market is likely to remain under pressure."

In the circumstances, he says, one could reasonably expect house prices to fall by a detectable margin, but they are more likely to actually rise in nominal terms. This is due to several factors.

"We expect activity in residential property to remain sluggish for the rest of the year," says Luus. "But though trade in properties is thin, prices are being bolstered by the fact that building prices continued to rise substantially last year. This tended to push up the new house prices."



Prices are being further underpinned by the fact that, where possible, people are hanging on to their homes rather than selling them at a loss. In time, the abolition of the Group Areas Act is also likely to have a positive impact on property prices. However, this is likely to be localised with some areas in the same municipal areas benefiting more than others.

In addition, there has been very little home building in the white housing market (partly because of rising building costs) for some time. The number of house plans passed during 1990 fell by 10,7% and the general expectation is that the number of completions will decline in 1991. This means that surplus housing stock is likely to be kept to a minimum, which could result in a sharp escalation in house prices once there is an economic recovery.

Luus and the United are not alone in these views. Others like Econometrix economist Azar Jammine believe the fundamentals are right for a real increase in property values. He argues (*Property* April 19) that the lack of new house building will eventually precipitate a shortage of housing stock which will push prices up at least to the point where it will trigger a new wave of home building. ■

ASSURANCE FM 24/5/91 (58)

SELLING HAZARDS (58)

An advertising and promotional campaign by the Institute of Life & Pension Advisers seeks to encourage consumers to trust the expertise of institute fellows. If it proves highly successful, fellows might need more insurance themselves.

Some of the risks they face in a potentially hazardous climate, where the quality of advice can be tested against the laws of delict — and statutory liability may also be involved — are spelt out by Southern Life assistant GM Nigel Scott.

Delict requires the components of wronging a person, culpability and neglecting the duty of care. A precondition for wrongfulness is that the duty of care is owed. Culpability follows if that duty is not exercised.

Quality of care is not itself the problem. Representing to a client that the service is of professional quality holds the potential for trouble because it holds out the promise of care.

If it is ever tested in court, says Scott, the quantum of care required in performing a service will be assessed by a peer group.

Courts have held, warns Scott, that even in a professionally qualified group, different standards of care may be recognised. There is a difference between consulting a generalist attorney and a specialist in maritime law.

Similarly, institute fellows can specialise — in pensions, life business, tax and estate planning. They should exercise care about the degree to which they profess particular expertise, Scott says.

The law of contract is a different hazard, largely concerned with misrepresentation. The ad campaign, says Scott, "indeed represents fellows as experts." He adds, however, that courts have so far been reluctant to classify errors of judgment as negligence.

A different problem involves statutory liability and criminal law. A fellow who renders a tax return for a client could run foul of criminal law if information supplied to the Receiver excludes details which could have attracted more tax. Scott says this responsibility on the adviser has not yet been strictly applied in SA. But in recent years, tax authorities in Australia have been particularly severe and advisers have found themselves on the wrong end of criminal proceedings.

Fellows have cogent reasons for separating themselves from the rest of the insurance intermediaries. Recent market research shows insurance salespeople rate low on the scale of consumer confidence.

Institute members, who spent much of their recent convention assuring themselves they are the elite of the profession, naturally want to distance themselves from that finding. They represent only 5% of the intermediary force, including both brokers and members of life companies' field forces.

The quality of experience among most people selling life assurance is limited. Turnover in field forces is, according to one office, "nothing short of appalling." The annual cost of training new entrants, who slip out after an average six months, is about R100m, according to an estimate at the convention.

Nevertheless, all life offices are adamant that the quality of selection and training of intermediaries is sufficient to serve the average uncomplicated client.

Institute fellows are by no means all intermediaries. They include life office executives who have taken the qualification because it is

continue →

FM 24/5/91 (58) (58)

recognised in the sector as at least equivalent to a relevant degree. Last year only 15% of those who wrote the exams passed. ■

Investing in a second house

Star 25/5/91 (58)

JUST how good an investment is a second house or property which is let out? This topic always seems to divide people. Some have made money following this route while others have badly burnt their fingers. Just what is the true state of affairs?

To illustrate the point, here are two examples:

Mrs A has a house in Potchefstroom which she lets out. Unbeknown to her, the tenant sub-let the house to a group of students. When she visited the property at the end of last year, she found it in a shambles and in great need of major repair: the legacy of too many raucous parties. She lost a great deal of money putting things right and sold at a loss.

On the other hand look atMr B who buys a second house ata bankrupt sale in Randburg for R83 000 (a true story) with a 15 percent deposit. He finds good tenants who look after the property. A year later he sells a much-improved house for R135 000. A great investment. If he held on for another year, he would have made another R50 000 to R100 000 as the property market surged soon thereafter.

Why the difference? Many factors play a part here, but an important one is that a second house/property needs some kind of active management on the owners' part.

You cannot buy a house far away and hope it will be kept in good condition. Had Mrs A visited her house once a month she would immediately have seen what was happening, and kicked the students out. So if you are going to take this route, know that you are going to be inconvenienced at times.

Money Matters

MAGNUS HEYSTEK

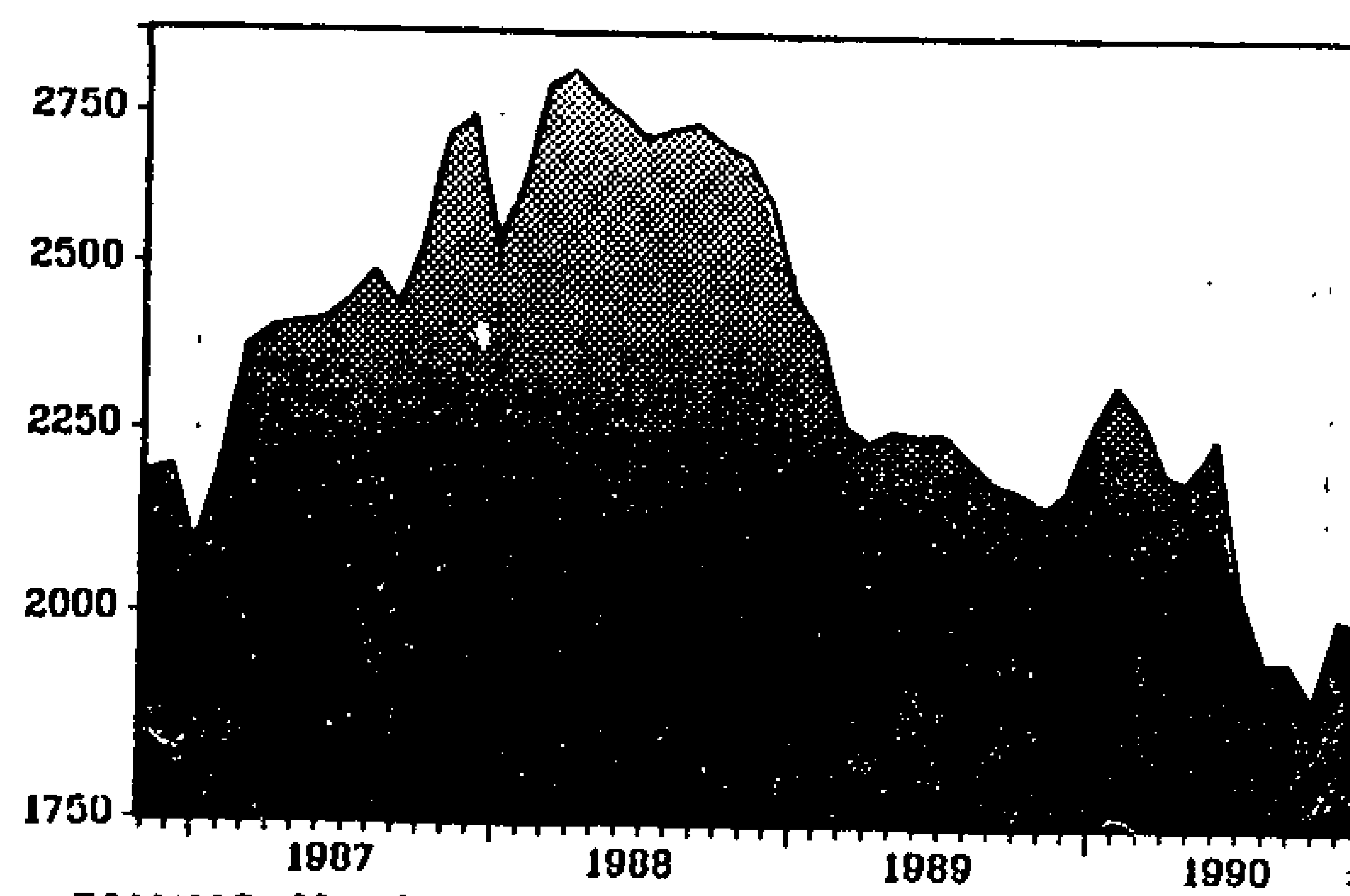
A second factor is timing. Property prices don't rise steadily, In fact, the cycles are downright erratic and sometimes very volatile. But the long-term trend is up.

A scenario of rising interest rates usually harms property prices. But on the other hand it increases the demand for lettable properties as rising repayments put home ownership out of reach of more people.

What is the position now? Is it a good time to buy a second property as an investment? My opinion is that it is. The reasons being the following:

- The difference between new house prices and those of existing houses is widening. Any sustained upturn in the economy will see prices of existing houses rising and the gap closing.
- The demand for rented accommodation is great and increasing. This situation is not going to get better. According to the latest Rode Report on Property the level of new-home construction has declined to only 2 000 units a month. With the exception of cluster and townhouse-developments, residential development in the greater Johannesburg has virtually ceased.

At the same time the demand for housing has increased, pushing uprental levels. A phone call or two to estate agents confirmed my view: rentals are soaring with tenants having no choice but to pay the higher rentals. There is simply is no alternative.



FALLING: Number of house starts (deseasonalised and smoothed) — *Source:Rode's report on the Property Market.*

Violence puts loans at risk

City Press 26/5/91 (58)

THE ongoing violence is placing bank loans to township businessmen at risk, according to Trust Bank chief executive John Howell.

In an interview with *City Press* Howell said the "90s will be a decade of prudence" for South African banks.

"The problems we face as a country are daunting: political strife, violence, overpopulation, poverty and an education crisis.

"For a bank this translates into increased risks. For instance, we are already seeing bad debts at unacceptably high levels in the home loans market, traditionally a relatively low risk market," he said.

Howell said banks would have to "redefine their strategies to survive" because of financial and political uncertainties.

"In future we will not be able to go ahead with any transaction without carefully evaluating all the factors."

He said that "shrinkage of the economy has left the South African market over-serviced by banks".

"This means, on the one hand, that more rationalisation in the banking industry is inevitable, and on the other that management of banks will have to work harder for their bank's survival.

"South African banks invested a great deal of money in technology during the 80s with the result that we now have a first world banking system.

"A fundamental challenge is to provide banking services to the majority of South Africans at a price that is acceptable to both customer and bank.

"Of course, if this is to happen the risk levels must be acceptable to the banks.

"We have responsibilities in addition to our normal business. Wealth creation and providing job opportunities are also are responsibility, and to achieve this with our limited resources we offer bursaries, sponsorships and grants.

"We are continually looking at expanding our own employment numbers and at ways of uplifting the lives of our staff."

Bank praises 21-year fight

APRIL 26/3/91

(58)

DURING its 21 years of existence, Soutacoc has made important contributions in various fields to uplift the black community, according to the African Bank.

"We at the African Bank are proud to be associated with Soutacoc because it played this role during difficult years of restrictive laws and many obstacles that impeded black economic progress and advancement," said an African Bank statement.

The bank's regional manager for the Witwatersrand and Natal, Billy Tlhabanelo, said the 21st anniversary of Soutacoc came at a critical time in South Africa's history.

"Politically grave and potentially divisive issues have to be settled urgently. Here I trust that all political leaders will endeavour to promote the political stability on which economic growth so much depends."

He said South Africa was economically stagnant and in a deep recession. There was also no black representation in the major economic sectors such as mining, manufacturing and agriculture.

"The existing education system for the majority of black people falls far short of the required standards and is therefore inadequate for productive employment in a modern economy," he said, adding that government education policy also failed to counteract the growing shortfall of technically qualified people.

However, Tlhabanelo said it was pleasing to note the repeal of discriminatory laws preventing black people from participating in the economy.

"We must remember, however, that changes in legislation will not necessarily bring about changes in attitudes. This calls for a concerted effort on our part to look for our own initiatives.

"It is imperative that, despite the limitations, which we will experience for some time to come during the transitional period, we must strive for a vibrant black modern economic sector," he said.

The challenge to Soutacoc and similar organisations was to encourage more black people to become economically active.

They should recruit more members; encourage members to become active through their participation on a committee of specific interest to themselves and come together with organisations with similar objectives and pool resources.

"Greater unity among them would become increasingly important because only a united voice can be heard."

Tlhabanelo said economic empowerment would be achieved through the co-operation of all black organisations, adding that the power of lobbying should also not be ignored.

"We can use collective power to press for demands and ask for changes in legislation to enable us to develop our institutions in their own unique ways."

Tlhabanelo urged black businessmen to support existing black institutions.

"Despite the state of the economy black disposable incomes are growing and, collectively, black contributions to black-owned financial institutions can be significant enough to mobilise capital for black development," he said.

"I have confidence that Soutacoc can remain powerful

Billy Tlhabanelo ... black disposable incomes are growing despite the economy and black contributions to black-owned financial institutions can mobilise capital for black development.

Bococ sings praises

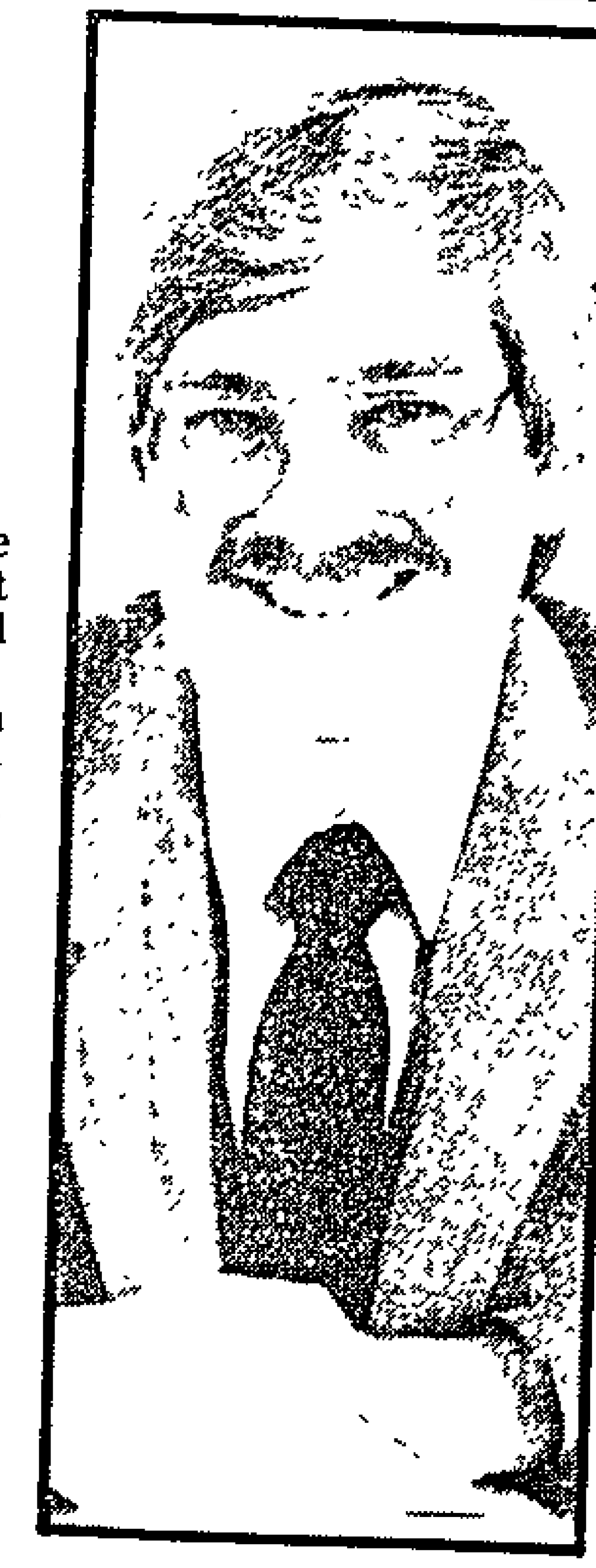
THE Bophuthatswana Chamber of Commerce and Industry (Bococ) has congratulated Soutacoc for "keeping together" over 21 years amid forces bent on division in black economic advancement.

"We rejoice with you and share common aspirations as compatriots in business

"We say, go ahead and never tire of working towards a future worthy of inheritance by our children."

Daunting task faces financial institutions

S1 Times (Bus Times) 26/5/91 (55)



MARK BADENHORST

By MARK BADENHORST, tax partner, Price Waterhouse

BECAUSE financial services have been exempted from VAT, it is essential to categorise the exceptionally wide range provided by institutions into taxable and exempt supplies.

This is a demanding exercise and raises complex technical issues about the treatment of goods and services bought by institutions providing financial services.

A supplier of tax-exempt goods or services will not collect VAT from his customers, but will not receive a credit for the VAT paid on goods or services consumed in providing the service. VAT paid on goods or services consumed represents a real cost which will result in a reduction of margins unless these costs are passed on to the customer.

The exemption of financial services can lead to tax avoidance.

Nevertheless, practical and conceptual difficulties which arise when attempting to tax financial services have persuaded virtually all countries to abandon the idea.

An important exception to the rule that most services provided by financial institutions will be exempt is encountered in relation to advisory services provided where a separate fee is charged for them. Such services will be subject to VAT at the standard rate.

If the advisory services are merely incidental and no separate fee is charged the supply will be exempt. This is of relevance to portfolio management.

Services regarded as exempt cover a broad front and embrace those provided by life assurers, pension, provident and retirement annuity funds, medical aids, banks, stockbrokers, foreign-exchange dealers, confirming houses, finance houses, factors, debt collectors, futures dealers, discount houses and many others

Many financial intermediaries provide both taxable and exempt services. Subject to a de minimis rule, those providing financial services will be required to allocate their inputs or goods and services consumed, between their use in making taxable supplies and exempt supplies in order to determine their entitlement to an input tax credit.

Purpose

This exercise will cause most of the heartache attached to VAT for financial institutions, but will also provide most of the planning opportunities

Any organisation which does not qualify for exclusion under the de minimis rule will be faced with the daunting task of capturing all VAT paid and then allocating the inputs to the services provided.

The allocation of costs relating to capital goods or overheads can cause special difficulties where changes in use over time will occur. The law's provisions aspect require careful study and management.

It is the purpose for which goods or services are required by the organisation which will determine whether VAT paid by it will qualify as input tax. The direct attribution method takes precedence over all other methods and involves allocating as accurately as possible that proportion of the consumption or usage in the course of making exempt or taxable supplies.

Where inputs cannot be identified as relating directly to taxable or non-taxable use, use can be calculated on turnover. However, this method will often not prove satisfactory. The organisation may be compelled to turn to other methods which will be more appropriate, such as use of an asset, floor space occupied and many others.

It may be expected that the authorities will apply the direct attribution method strictly and that financial institutions will not be allowed to gain an advantage by increasing taxable supplies or to merely apportion VAT paid simply on the rate of tax-exempt supplies to the total of taxable and tax-exempt supplies.

The proposed interest levy on finance charges and interest earned by financial institutions will have a significant effect on fine margins. The present lack of information on exactly how this levy will operate makes for difficult assessment of its true impact.

Distortions

The problem with a tax of this nature is that it tends to introduce distortions as taxpayers try to shift transactions to avoid the tax. This manipulation of the tax base once again offers tax planning opportunities.

In planning effectively for both VAT and the tax on interest and finance charges, financial institutions will be facing one of their biggest fiscal challenges in recent years.

Banks reject blame for cash scandal

58

S Times 26/5/91

By MARTIN WELZ

VOLKSKAS and the Reserve Bank this week sought to have summonses issued against them by 114 investors in attorney Albert Vermaas's notorious investment schemes thrown out of court. The investors claim that the Reserve Bank's failure to enforce currency control regulations allowed Vermaas to unlawfully move R100-million out of South Africa.

ALBERT VERMAAS
Glowing reports

The Reserve Bank, however, argued that the negligence charges were "vague and embarrassing" because they did not show why it was claimed the bank had a legal duty to protect the public from fraudulent investment and currency smuggling schemes.

They also argued that the Reserve Bank had never before been sued for negligence in carrying out its statutory duties, and that the court should not expand the common law right to claim damages to cover such a case, as it might "open the gates to a limitless flood of claims".

Authority

Arguing for the investors who want the banks to pay damages, Professor PQR Boberg SC of the University of the Witwatersrand — himself an authority on South Africa's laws governing damages claims — told the court that South African law explicitly allowed claims for "pure economic loss".

The Reserve Bank and its agent, Volkskas, should have been aware, or had the duty to establish that the invoices submitted by Vermaas or his companies specified fictitious transactions or prices for aircraft and spares, and were directed at obtaining foreign exchange by false pretences, they alleged.

Most of it was money Vermaas had raised from investors. As a result, the investors were likely to recover only 10 cents in the rand of their investments from his insolvent estate.

Glowing

Investors were entitled, Professor Boberg argued, to recover the balance — their economic loss resulting from the banks' negligence — from the banks.

The claimants are demanding a total of R20-million from the banks.

Some of the biggest investors in Vermaas's scheme, the Public Servants' Association and the SOS Children's Fund, have not instituted claims against the banks.

All the claimants also allege that they were encouraged to invest or reinvest with Vermaas by Volkskas's glowing reports.

An example: Volkskas manager S Whitmore described Vermaas as "an honourable and reliable client" and added, "We regard him as good for the amount of your query, namely R20-million for three months".

In November Mr Whitmore issued a similar complimentary bank report, but this time he described Vermaas as a "reasonable risk" for an amount of R40-million for three months.

Vermaas's revolving credit scheme collapsed in November 1988.

The plaintiffs allege in their summons that Volkskas was aware for some years prior to his sequestration that he had been accepting deposits from members of the public and offering them interest rates far exceeding the rates offered by other financial institutions and far exceeding commercially viable rates — in effect that he had been conducting a "high-risk, reckless and unlawful deposit taking business".

Duty

The Reserve Bank employs and controls the Registrar of Banks. It is the registrar's responsibility, in terms of the Banks Act, to inquire into the affairs of any person who is not registered as a bank and who is carrying on the business of a bank.

It is also the registrar's duty to order people illegally conducting the business of a bank to repay such money to investors.

Mr Justice McCreath reserved judgment in the matter.

Middelburg's wonder chrome plant hits snag

S|Times (Bus Times)

26|5|91.

Business Times Reporter

MIDDELBURG Steel & Alloys is in trouble.

Its new R260-million, 140 000-ton-a-year chrome direct reduction (CDR) plant that promised cost savings is idle and ferrochrome prices have slumped.

Future earnings could be seriously hurt.

The company suffered a R17-million loss in the six months to March 31.

MS&A is unable — or unwilling — to say when production will begin at the plant. Nor is it prepared to disclose information that would allow analysts to assess the gravity of the problem and what the delay is costing.

CDR is a quantum leap in ferroalloy-steel technology. The concept of CDR was attractive to MS&A because it sharply reduces production costs of ferrochrome — mainly in power use, the major cost element — relative to the conventional submerged-arc process.

If CDR succeeds MS&A will become the world's lowest-cost ferrochrome producer.

Slag

MSA has said that the major problem is in the second of the two-stage CDR process. In the first stage chrome ore is reduced to a metallised intermediate product in a kiln.

In the second stage the intermediate product is melted in a smelter to separate the metal (ferrochrome) from the slag.

The kiln stage is working well and the intermediate product can be mixed with chrome ore and used as feedstock in the conventional submerged-arc furnaces in the old plant. However, technical problems — mainly affecting the refractory lining the furnace — have forced the indefinite closure of the smelter.

What is unclear is who is to blame for the smelter breakdown. Is it a design problem or is it an operational one?

There is some evidence — MS&A declines to confirm it — of a dispute between MS&A and its contractors. If true, this converts the issue from a technical problem into a wider issue with possible legal implications.

Whatever the cause, earnings prospects hang heavily on the duration of the smelter closure. MS&A has a sanguine view about the CDR process and says a four-year learning curve is normal for new technology.

However, in the meantime the high overheads of the new plant and high production costs based on the old one will exact a toll.

Ferro-chrome is a cyclical industry. High prices, rising to nearly 80 US cents a pound in early 1989, triggered by a sustained world stainless-steel boom, resulted in overproduction of ferrochrome and accummulation of excessive stocks.

Prices slumped to 50c/lb in 1990.

The slump could bring long-term benefits for the SA industry through high-cost foreign producers being forced out of business.

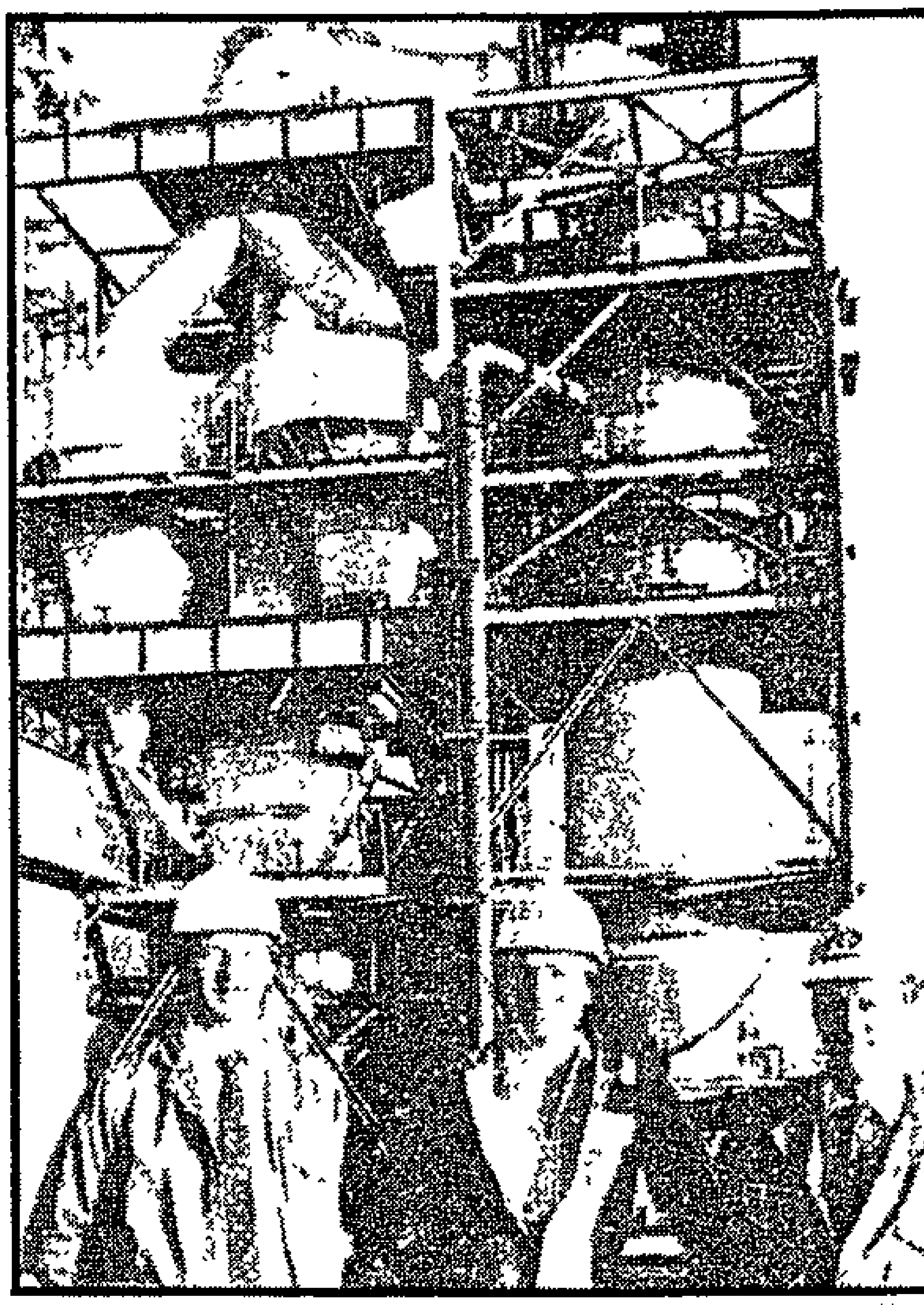
Proud

But SA producers — particularly MS&A — are having to pay dearly until recovery in demand and prices gets under way.

Although world stainless-steel production continues at a high level and producers' ferrochrome stocks are falling, prices in 1991 have made only a marginal recovery to 49c/lb.

MS&A has been particularly hard hit because the price fall coincided with the introduction of the CDR project. MS&A has a proud record of innovative technology. It includes the first — and still the only — stainless-steel plant in SA in the early 1960s, the introduction of a revolutionary low-cost grade of stainless steel, 3CR12, in the early 1980s and construction of the first plasma ferrochrome furnace here in the mid-1980s.

MS&A is the second company in the Barlow fold — after Rand Mines — to send out distress signals. Barlows intends to float off a minority stake in MS&A towards the beginning of its 1992 year.



TROUBLE AT THE PLANT: MSA executives Paddy Probert, Keith Luyt and managing director John Gomersall

Efforts to boost blacks fall down

Business Times Reporter

THE HEADS of some prominent businesses say black economic empowerment is vital, but they are not succeeding in some of their own most important affirmative action programmes.

The finding emerges from a survey by Deloitte Pim Goldby Management Consultants.

Executives of Murray & Roberts, McCarthy, African Bank, Premier, Malbak, Pick 'n Pay, Eskom, Nampak, Rusfurn, Dorbyl, Everite, Consol, Truworths, OK Bazaars, Sasol, Toyota and Sage Holdings were interviewed.

Only two of 17 say economic empowerment is not important in their organisation.

Deloitte reports that promoting blacks, helping entrepreneurs and establishing links with black power groups are among the most common empowerment initiatives taken by the organisations.

S|Times (Bus Times) 26|5|91

Faith

But when asked to rate their performance, most executives say they are not succeeding.

Among the reasons given are lack of talent and education of the candidates; huge costs; the political climate; and the cultural gap.

One respondent commented: "It's being done on faith because we have to start somewhere."

With few exceptions the organisations report only moderate success with other empowerment initiatives — staff training and development, social responsibility and education of employees' children.

The survey finds that the two most popular reasons for having empowerment programmes are the promotion of peace and harmony and improving relationships between different groups in and out of the workplace.

Banks under new strain

S|Times (Bus Times) (58) 26|5|91.

By DIRK TIEMANN

BANKS face new cost pressures because the Reserve Bank wants them to hold more funds in reserve against loans they grant.

The Deposit-Taking Institutions (DTI) Act lays down that their capital reserves must amount to at least 4,5% of bank loans and that this figure will rise to 8% by January 1995.

But Registrar of Banks Hennie van Greuning has a 15% capital requirement in mind. He says 8% should be regarded as a minimum rather than a ceiling. New banks may be asked to aim for 15%. His requirement is not out of line with those in many other countries. For British banks the ratio is about 15%. Only the really big banks are allowed to hold lower reserves of about 10%, but not below 8%.

Dr Van Greuning says banks have two extra years to adjust to the international standard of 8% because "they have been isolated from the rest of the world and operate in an inflationary environment, which makes capital accumulation difficult".

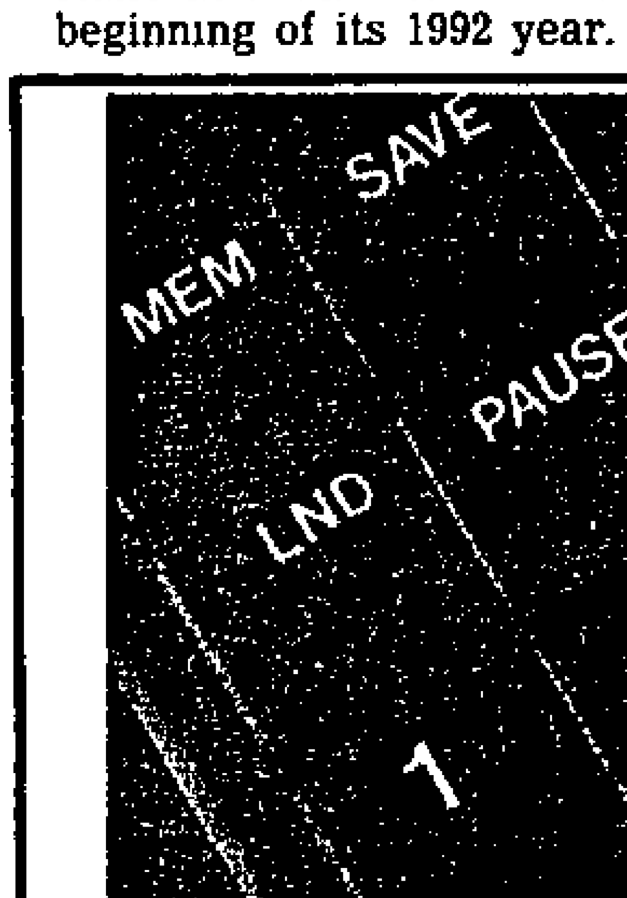
The DTI Act specifies capital requirements for different types of loan. No reserves need be held against loans to the Government; home loans must be backed by reserves equal to 50% of the stipulated capital requirement; and overdrafts by reserves equal to 100% of the capital requirement.

This means that by 1995, a bank with a home-loan book of R100-million will have to keep only 8% capital against R50-million and not the full amount.

Fear

Dr Van Greuning says adequate capital requirements are needed to protect savers because SA does not have deposit insurance.

"People fear that deposit insurance will place controls on the well-managed banks, but let those with poor risk management get away with murder. I am not in favour of a public-sector deposit-insurance scheme."



Auditors made bank watchdogs

S Times (Buss Times)

58

26/5/91.

By DIRK TIEMANN

EXTERNAL auditors working for banks will become Reserve Bank watchdogs about their clients' activities.

Section 63 of the Deposit-Taking Institutions Act requires auditors to tell Registrar Hennie van Greuning of "any matter which may interest (him) in his supervisory capacity".

It is part of a plan to give the Reserve Bank's supervisors warning of problems in a bank.

Section 63 also requires auditors to send the Deposit-Taking Institutions Registrar copies about any "material irregularity report" in terms of section 26.3 of the Public Accountants and Auditors Act.

In keeping with the Act's intention to get banks to make full disclosure and to ensure improved risk management auditors are also obliged to submit a risk-based management report.

Past practice was that the auditors would simply state that they had examined a bank's financial statement and deemed them to comply with General Accepted Accounting Practices (GAAP).

HENNIE VAN GREUNING: Regulation needed to protect the savers

Disaster

Now auditors will have to highlight unacceptable banking practices.

For example, auditors would have to tell the Registrar if a bank had no disaster recovery plan for its computer system.

Deloitte Pim Goldby partner Tim Store says the implications are that the auditing profession becomes an extension of the regulatory arm, not merely the finger. UK auditors are in a similar position.

Mr Store stresses that auditing firms will have to put their staff through specialist training on risk management.

He says: "If auditors think they can continue as in the past, accusations of incompetence and irrelevancy could be levelled at them.

"It is a new ball game because auditors of banks are not dealing with ordinary companies. There will also have to be a lot more discussion with bank management to identify problem areas.

"This raises the potential for conflict between auditors and clients.

"However, auditors tend to focus on controls first and profits second. Bankers tend to look at profits first and controls second. That should make for a good balance."

Mr Store says audit fees for banks in Britain increased by 200% when the auditors were required to give evaluations of all risks.

A banker who asks not to be named disagrees, saying: "It sounds as if he is hopeful. There will be increases in auditing fees and they could vary from bank to bank.

"But if the auditors were doing their job properly in the first place, no bank would accept a trebling of fees."

Dr Van Greuning claims that the Act is not intended to give auditors a policing role.

"Auditors are trying to come to terms with what they must report to the Registrar My staff has no time for petty rule making. I am trying to sell a philosophy. A bank's losses through imprudent practices are obviously material.

"I am trying to establish risk-management principles, telling banks there are standards they should have in place. Banks are working with depositors' funds. Regulation is needed to protect deposits.

"Banks essentially invest in debtors and financial instruments. Auditors must focus more on the real risk areas than adopt an ordinary company-based audit that lays emphasis merely on accounting practice."

Warning

Section 7 of the Act allows the Registrar to request from any expert a report on any aspect of a bank's operations or its risk management. Dr Van Greuning will concentrate on reports about credit and price risks this year.

Next year he will turn to other aspects of banking.

Dr van Greuning says the information in the reports about risk management will be used to show how the banks operate in this area and to update legislation.

The Act also provides for early warning mechanisms. A bank's director must be told of any loan exceeding 25% of capital and reserves.

The Registrar must be told about any deposit exceeding 10% of a bank's total deposits.

Absa gets Seeff stake

S/Times (Buss Times) 26/5/91.

Business Times Reporter 58

COMPETITION among banks for home-loan mortgage business has propelled them into a scramble for stakes in estate agencies.

The biggest prize so far has gone to Amalgamated Banks of SA (Absa), which has bought a 25% stake in Seeff Organisation Holdings.

Seeff's residential properties division recently merged with O'Riain Estates to form a group with expected turnover of R1-billion annually. This makes it the largest residential real-estate group in SA.

Seeff chairman Lawrence Seeff says his group will benefit from Absa's large client base and property holdings. Many bond applications arising out of Seeff's property deals will flow to Absa.

Senior general manager of Absa's United Bank Tienie van den Bergh says Seeff has consistently outperformed its competitors. He is happy with a stake in "this expanding property and financial services group".

Assurers' black business booms

58

B Day 27/5/91

SEAN VAN ZYL

DESPITE the increased violence in most black areas this year which upset conditions for sales forces, life assurers claim their new individual business written in the townships has blossomed.

Life offices have reported growth of between 20% to 75% in new individual black business written last year, and which has continued into the first quarter of this year.

While most white written business is handled through personal interviews at the client's home, assurers noted black business usually required dealing with the policy holder at his place of employment.

Old Mutual assistant GM Fritz Olivier said that in the main unrest areas like the Witwatersrand nearly all of their individual black business was done through schools or hospitals.

Sanlam, which achieved 75% growth in black individual premiums in 1990, also conducted most of its selling at the workplace, senior GM Desmond Smith said.

Metropolitan Life spokesman Nico Oosthuizen said that about 70% of the company's new individual business written last year was in the black community. They have established sales offices in most of the black areas. "We also consult our clients at their place of work during lunch hours."

However, African Life's MD Bill Jack said that the major problem in selling at the workplace was the restriction on time and adequate facilities.

Bank of Taiwan plans branch in Johannesburg

B/Day 27/5/91

SHARON WOOD

THE Bank of Taiwan plans to establish a subsidiary in SA in October this year, says Mustek Electronics chairman C C Kan. The bank, based in Johannesburg, would focus on export and import financing and corporate banking.

The initial capital for the bank would probably exceed R50m. No participation of local shares was being considered at present.

The bank would act as a branch of the parent bank and move loan funds into the country quickly with the approval of the SA Reserve Bank, Kan said.

He added that the Bank of Taiwan's subsidiary would be of great significance to about 300 Taiwanese factories in SA. "Since Taiwanese factories are classified as foreign companies, local banks are reluctant to render any significant financial support, thus hampering their development."

Kan, who is helping the Bank of Taiwan establish the subsidiary, said a group of five senior Bank of Taiwan executives would come to Johannesburg in about mid-June.

They would start the process of establishing the subsidiary in accordance with the Deposit-Taking Institutions Act.

Registrar of Banks Hennie van Greunen said he had had no official application from the Bank of Taiwan to open a representative office in Johannesburg, but he would be happy to consider an application.

The Bank of Taiwan would have to follow certain procedures before permission could be granted for the office.

In January the bank's vice-president for international management, David Chang, visited SA and did a feasibility study on the possible extension of its business in SA.

Chang praised the sophisticated banking system in this country. He added that a benefit of operating here would be in adopting useful systems practised by other banks.

HAROLD FRIDJHON in the Money Markets

Tide of liquidity now begins to ebb

B/Day 27/5/91 (58)

THE high tide of liquidity which had been flooding the money market is receding. Some key rates are already anticipating the widening gap between the supply and demand of funds.

The rate for 90-day liquid BAs hardened during the week from 16,80% (discount) to 16,85% and then to 16,90% on Friday. The Discount House has raised its rate because a view is being taken on the anticipated tightening in the market. The Treasury bill (TB) rate added a further three basis points on Friday in a well-supported R402m tender for the R130m bills on offer. The average rate came out at 16,69%. Both the TB and BA rates are lagging their Reserve Bank re-discount rates, BAs by a margin of 60 points, which cannot bring joy to the authorities.

An indication of tightening liquidity is reflected in the market's debt to the Reserve Bank — the market shortage — which has been stretched to R2,7bn, compared with R1,4bn in the third week of April. However, the Bank owes the market R1bn in tap TBs and other liquidity absorbtion devices, so the probable shortage is about R1,7bn. But the banknote issue is still about R800m below its estimated peak, taking the potential shortage to about R2,5bn.

Market analysts are forecasting that the month-end shortage could reach R3bn. This would gladden Governor Chris Stals's heart; it would restore his complete control of rates without having to resort to so-called open-market operations to drain the market's hyper-liquidity.

The tide of liquidity is ebbing because funds are being permanently withdrawn. Market sources report that about R2bn has been taken out of cold storage for housing development and R500m has left the banking sector as Treasury funding is entering its high season for borrowing. But no one will say how much has been raised, for what period, and at what rate.

This is arrant nonsense. The public has a right to know. They will eventually learn the truth when Treasury receipts are gazetted and those with a mathematical bent might even be able to estimate the rates from the amount of the discount which is published in the monthly Treasury statement. Meanwhile, government borrowing is a for-your-eyes-only Top Secret.

Absa awaits 'fuller benefits' of merger

BDay 28/5/91

(58)

ROBERT GENTLE

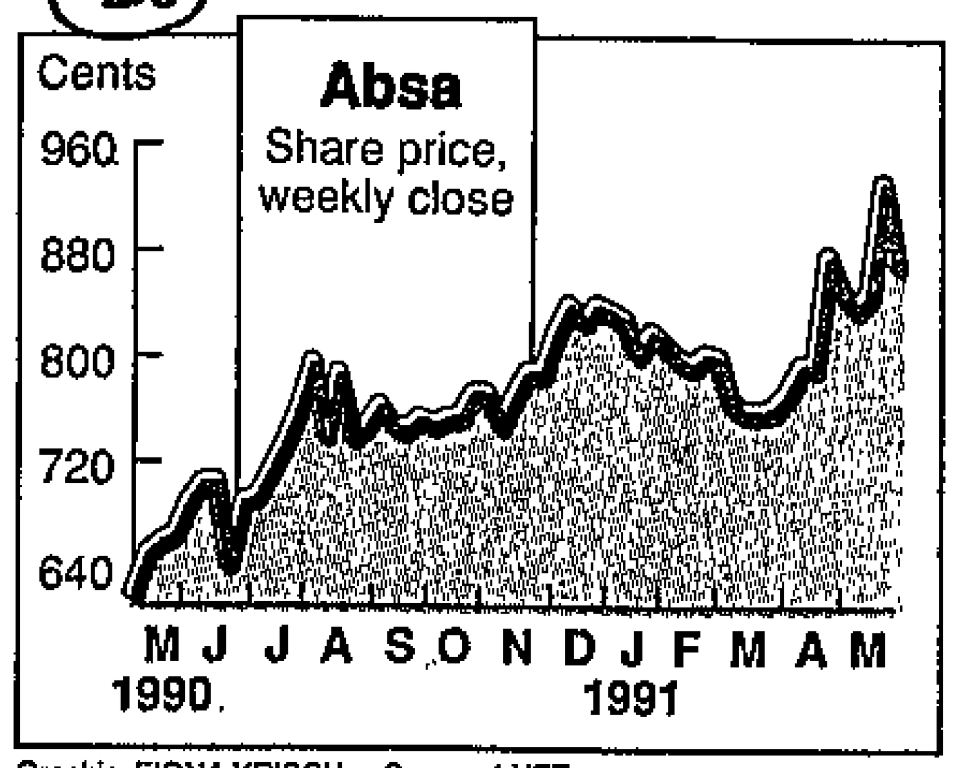
AMALGAMATED Banks of SA (Absa), the recently created banking group, has reported attributable income of R321m for the year to end-March and expects the fuller benefits of the merger to start flowing through by next year.

Absa was formed in January when United Building Society (UBS) acquired the total assets of Allied Group, Volkskas Group and certain interests of Sage Financial Services in a deal worth R1,76bn.

The results, which take into account the contributions of Allied and Volkskas with effect from October 1990, and those of Sage from January 1991, therefore cannot be strictly compared with those of the previous year.

A breakdown of the R321m attributable earnings figure shows banking accounted for R210m (or 65%) of the total, insurance for R92,6m (29%) and the "other" category for the balance of R18,9m (6%).

Earnings, based on the weighted average number of shares in issue during the period under review, were 93,4c a share. A dividend of 36c a share was declared, covered 2,6 times.



Graphic: FIONA KRISCH Source: I-NET

Absa CE Piet Badenhorst said at the detailed presentation of the results in Johannesburg the group would seek to increase this cover to three times.

On the operational level, income from interest and investments exceeded interest paid out by R1,35bn. This net margin was

☐ To Page 2

Absa results

BDay 28/5/91

(58) ☐ From Page 1

reduced by provisions for bad and doubtful debt of R175m.

Badenhorst said most of the doubtful debt was with Volkskas, which had the largest exposure to commercial lending. There had also been "very substantial writedowns" at Allied.

He cautioned against reading too much into the doubtful debt figures at this stage, saying Absa had made "ample provisions" based on a very conservative policy.

On the general implications of the merger, Badenhorst said accounting policies had been brought into line with UBS's own conservative policies. Thus costs like computer software would be written off in the year they occurred, and investments like gilts would be valued at market rates.

Of the six computer centres, only two would still be operating by year-end. The branch network would be rationalised on the basis of profitability and frequency of use.

The issue of trimming Absa's 26 583 staff complement would be addressed from June onwards "with sensitivity for the people concerned", he said.

On future trends, he said Volkskas was set to benefit most from the merger, followed by Allied. While it would take at least two years to feel the full effects of the merger, said Badenhorst, they should start to show by next year.

He spoke of a good spirit of co-operation at board level. "There are no signs of any petty jealousies," he said.

Absa's total assets as of end-March stood at R51,8bn. Its return on average assets was 1,01%, while the return on average shareholders funds was 15,4%.

FNB takes up the Absa challenge

B Day 28/5/91 (58)

Reports by MARCIA KLEIN

FIRST National Bank's (FNB's) newly flighted campaign shows its determination "not to be prejudiced by new market conditions" following the recent formation of banking giant Amalgamated Banks of SA (Absa).

FNB spokesman Allan Owen says the formation of Absa has "changed the status quo in banking and created a buyers' market". More than R1m was spent on advertising financial institutions in a single Sunday newspaper on May 5, indicating that banks were fighting for every account.

He says FNB "boldly takes on the competition" in its new campaign for its Firstcheque account service, which invites consumers to think first and be choosy about their bank.

The TV commercial shows a couple hounded by bankers for their signature to open an account, and they "escape to the peace, security and friendly professionalism of FNB".

The print ad shows the many pens that may be offered for one's signature, each in the corporate colours of competing banks.

While the TV ad is "subtly comparative", Owen says "to goad competitors just a little further, the print adverts . . . are even more comparative, as each pen in in the corporate colour of the competing banks".

Advertising Standards Authority assistant director Deline Beukes says although she would have to assess the advert in terms of the code and content, it was not true comparative advertising was completely prohibited.

Comparisons are allowed as long as the competition is not named, and must be made in terms of the strength of the company's own product and not on the demerits of others.

ABSA shows huge insurance profit

58

28/5/91

By TOM HOOD, Business Editor

THE huge profits banks make from insurance is shown in the results reported by the new Amalgamated Banks of South Africa (ABSA) for the year to March 31.

Banking provided R209,8 million or 65,3 percent of its profits — down from 69,3 percent a year ago.

Insurance provided R92,6 million or just under 29 percent, compared with 17,4 percent last year.

Other income sources provided R18,9 million or 5,9 percent of profits, down from 13,3 percent.

ABSA, formed from merging the Allied, United and Volkskas, reported encouraging first profit and indicated further good results.

Earnings amounted to R321 million for the year ended March, equal to 93,4c a share and a 13,7 percent increase on the 82,1c earned last year.

The chairman, Mr Herc Hefer, said it was difficult to make profit forecasts in the current climate, but the group's sound capital base, high quality management resources and future rationalistion savings, should result in attributable profits improving.

The group's five major shareholders — Universa and associates, the Old Mutual, Sanlam, First National Nomines and Momentum group — held 49,3 percent of its shares. Other corporates held 22,7 percent and individuals 27,0 percent.

Managaing director Mr Piet Badenhorst, said since the UBS went public its shareholders had seen the value of their shares rise from R2 to R8,75.

Rationalisation proposals included reducing six computer centres to two.

Rationalising manpower would start from June onwards. This was a sensitive matter. The group had no target for retrenchments. It would first investigate how much staff it needed. Other steps included calling a halt to the branch extension programme and rationalising existing branches.

● **TIMES MEDIA** reported an increase in turnover of 12 percent in the year to March, mainly as a result of recent acquisitions, increased advertising rates and higher cover prices.

Sales circulation volumes of most publications were marginally higher than last year, but advertising volumes were significantly lower, especially the level of staff vacancy advertisements.

Operating profit slipped by 1 percent to R39,6 million.

Interest received increased by 26 percent to R11,2 million — the group had R58 million in cash and short-term investments.

About R38 million of this would be used to pay the final dividend and tax on profits.

Net profit was 1 percent lower at R25,1 million, but the final dividend had been raised to 40c from 36c, bringing the total payout to 60c, an increase of 11 percent.

● **H and H TIMBER HOLDINGS** is investing R40million in a new plant near Richards Bay to produce and export hardwood chips to the Pacific Rim countries.

The first phase of production will begin in the first quarter of 1993 and reach full production by 1996. Silvacel is expected to export hardwood chips worth R200 million in today's money.

ABSA's performance proves critics wrong

Star 28/5/91.

By Derek Tommey (58)

ABSA — the banking group formed by merging the Allied, United and Volkskas — has reported a highly encouraging first profit.

Critics said that merging the three would be costly. This has proved to be completely untrue as its reported earnings of R321,2 million for the year to March shows.

This is equal to 93,4c a share and is a 13,7 percent increase on the 82,1c earned last year.

ABSA chairman Herc Hefer says the results are commendable when viewed against the background of unsettled political and economic conditions, intense competition, escalating debt arising from prolonged high nominal interest rates levels and fundamental changes in the banking industry.

The earnings are based on the profits of the UBS for the 12 months to March, the profits of Volkskas and the Allied for the six months to March and the profits of certain interests of the Sage group for the three months to March.

A final dividend of 22c (19,5c) has been declared, making a total payment of 36c (32c) for the year.

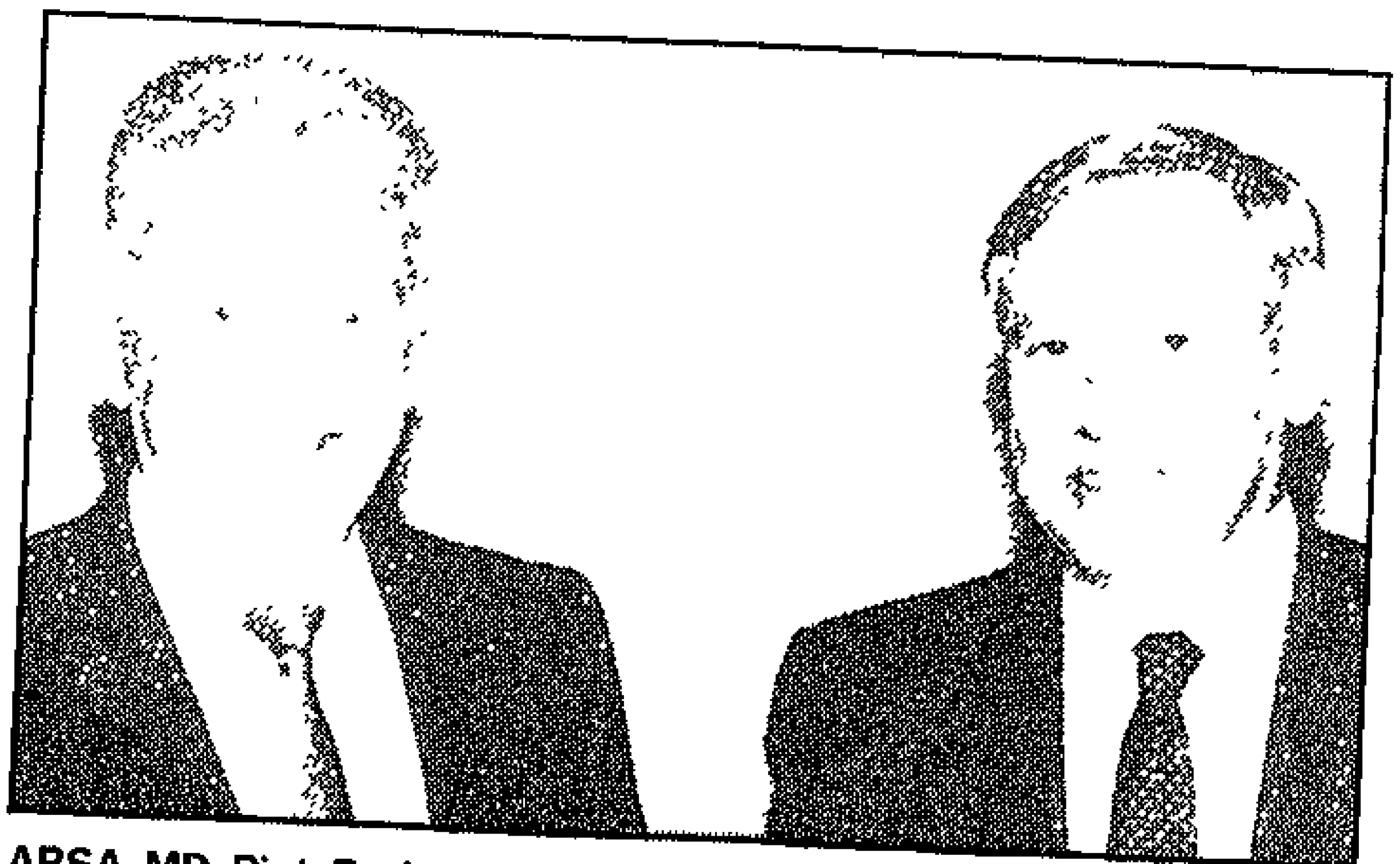
The profits come after substantial write-offs aimed at ensuring that each of the three groups' assets are valued on the same conservative basis.

Mr Hefer says the UBS paid R1,76 billion for its Allied, Volkskas and Sage assets.

It paid a premium of R312 million for the net tangible assets of the Allied and a premium of R79,1 million for the net tangible assets of its Sage acqusitions.

It is proposed to write off these premiums against the share premium account.

Merger expenses were about R49 million, which includes provision for a payment of up to R16,8 million to First National Bank to cover its costs.



ABSA MD Piet Badenhorst (left) and chairman Herc Hefer after announcing results last night

One aspect of the merged profit figures that will surprise the investment world is the large amount of income ABSA received from insurance.

Banking provided R209,8 million, or 65,3 percent, of its profits, but insurance provided R92,6 million, or just under 29 percent.

Other income sources provided R18,9 million, or 5,9 percent of profits.

Mr Hefer says the merged group had assets of R51,9 billion on March 31. The return on average assets was 1,01 percent, while the return on average shareholders' funds was 15,4 percent.

The group retains its exceptionally strong capital base of 5,7 percent.

The net asset value of ABSA shares is 622c.

Mr Hefer says this year will see benefits from merging the three groups. But the benefits will probably be even greater in the second full year (1992-93) of the merger.

The assets, liabilities and reserves of the group's banking operations are to be merged into one company and the Allied, United and Volkskas subgroups will operate as trading divisions.

This would result in significant cost savings, the better use of capital, more effective tax management, greater flexibility and greater trading strength.

Mr Hefer says it is difficult to make profit forecasts in the current climate, but the group's sound capital base, quality management resources and future rationalistion savings, should result in attributable profits improving.

Following the merger the group's five major shareholders — Universa and Associates, the Old Mutual, Sanlam, First National Nominees and Momentum group — held 49,3 percent of its shares. Other corporates held 22,7 percent and individuals 27,0 percent

MD Piet Badenhorst says that since the UBS went public, its shareholders had seen the value of their shares rise from R2 to R8,75.

He takes to task those analysts who accused Volkskas of a lacklustre performance.

He says Volkskas' management had turned around its costs and Volkskas would be the company to benefit most from the merger.

Rationalisation proposals included reducing the six computer centres to two.

Rationalising manpower will start from June. The group has no target for retrenchments.

It will first investigate how many staff members it needs.

Other steps include calling a halt to the branch extension programme and rationalising existing branches.

Sage Property meets forecast

B/Day 29/5/91 (58)

LIZ ROUSE

SAGE Property Holdings (SPH) has met its forecast of increased profitability, reporting net income of R12,98m for the 15 months to March compared with R7,78m in the previous year.

This increased profit was achieved despite a recessionary environment and particularly difficult conditions facing the housing sector.

Earnings a share, now diluted after the conversion of all the preference shares, reflect an increase of 4,2% on an annualised basis to 23,7c, despite the 52% increase in the issued ordinary share capital.

The final dividend amounted to 9c (7c), bringing total distribution for 15 months to 13c (11c).

In the last annual report, the directors stated that if economic conditions did not deteriorate further, and interest rates began declining, the group's homebuilding activities could look forward to improved results.

In the event, recessionary conditions intensified and interest rates remained at penal levels throughout the review period.

Nonetheless, the homebuilding division achieved much improved results.

That being so, and with the group's diverse property activities making further progress, SPH as a whole met its forecast.

SHP directors caution that it is expected that profits for the coming year will reflect the burden of a recessionary environment, continuing high interest rates and a possible higher effective tax rate.

Société Générale takes over IBJ

B/Day 29/5/91

(98) (58)

MARCIA KLEIN

FRENCH bank Société Générale has acquired 100% of The International Bank of Johannesburg (IBJ) from Bankorp and other shareholders.

Société Générale announced yesterday that it would take over the merchant bank, in which Bankorp had a 50% stake. IBJ's name would probably be changed to Société Générale SA Ltd.

IBJ, which has a head office in Johannesburg and a branch in Cape Town, has assets of R505m and is capitalised at about R28m.

The announcement said that French authorities, by virtue of a decree passed on March 13, withdrew the requirement of prior authorisation for any investment by French companies in SA.

An informed source said yesterday that Société Générale has had a representative office in SA for some time and has been involved in the funding of various local projects.

He said Bankorp had wanted to sell its 50% stake in IBJ in line with its rationalisation programme. He could not say how much the deal was worth.

IBJ's management structure would not change, but there would be some restructuring of the board following Bankorp's disinvestment, he said.

Amalgamation puts Absa into the lead

(58) B Day 29/5/91

ROBERT GENTLE

AMALGAMATED BANKS of SA (Absa), the recently formed banking group, has taken number one spot in the market share of certain key banking products.

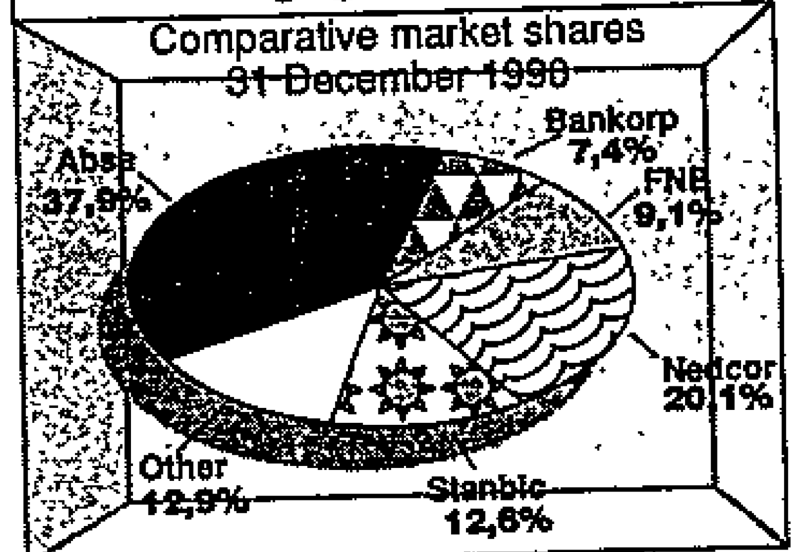
This emerges in a series of comparative market share studies as of end December 1990 made by Absa on the occasion of its annual results presentation this week.

Absa was formed in January when United Building Society (UBS) acquired Allied Group, Volkskas Group and certain interests of Sage Financial Services. It has total assets of R52bn (excluding guarantees and letters of credit).

On mortgage advances, Absa takes 37,9% of total market share. Next in line are Nedcor (20,1%), Standard Bank Investment Corporation (Stanbic — 12,6%), First National Bank (FNB — 9,1%) and Bankorp (7,4%).

Mortgage advances

Comparative market shares
31 December 1990



Graphic LEE EMERTON Source ABSA

In savings deposits, Absa takes 30,7% of total market share, followed by Nedcor (20,3%), Stanbic (20%), FNB (15,3%) and Bankorp (9%). In term deposits, Absa also takes number one spot with a share of 29,1%.

But in cheque accounts, Absa, with a 21,7% market share, lags behind leaders Stanbic (27,3%) and FNB (23,7%).

In instalment sales and leasing, Absa is even smaller, accounting for only 10,8% of market share. Stanbic (29,1%), FNB (25,9%) and Bankorp (20,2%) lead the field.

One area where big is not necessarily better is staff. The study showed Absa employed 26 583 people, just below Stanbic (26 673), FNB (25 510) and Nedcor (17 739).

CE Piet Badenhorst said at the presentation of the annual results that the "head count" would be addressed from June onwards.

At the latest reporting date, Absa's capital adequacy — shareholders' funds as a percentage of total assets, excluding off-balance sheet items, guarantees and acceptances — amounted to 5,71%.

Badenhorst described the level as "more than adequate".

Impressive as the Absa presence on the banking scene may appear at first sight, it will take time before a clear picture emerges.

The next set of results will be skewed, as are the current figures, by the fact that the income statements of Absa's constituents reflect different periods.

Crusader's UK stake expects a return soon

B/Day 29/5/91

SEAN VAN ZYL (58)

CRUSADER Life's R10m 26% stake in UK-based Pegasus Assurance should soon start to produce a satisfactory return, new Pegasus MD Peter Simkins said last week.

Simkins, a former senior partner at law firm Deneys Reitz, takes up his post at the helm of the rejuvenated Pegasus operation on June 1.

He said Pegasus would most likely follow an aggressive marketing campaign over the next three to five years to capture market share "at which stage, we plan to take the company to the London stock exchange".

Problem

Crusader Life, now part of the AVF Group, planned to market its dread disease and health care living benefits products through Pegasus, Simkins said.

Crusader originally pioneered the health care and dread disease market in SA, a concept which had so far met with "great response" in the UK, Simkins said.

While the appointment of a South African as a senior director on the board of an overseas company might have presented a problem two years ago, Simkins said his position had already been fully approved by the Pegasus board of directors — which includes representatives from a number of highly regarded financial institutions and companies.

Simkin said that Pegasus recently established a tele-sales division to market health care and dread disease policies — similar to the telephone sales techniques currently employed by AA Life and Crusader.

"We have been totally swamped by people phoning in with inquiries — to the extent that our sales people can't keep up with the demand."

Ultimately, Simkins said that Pegasus planned to expand its tele-sales marketing campaign into Western Europe: "There are no other players in the health care insurance market currently operating in Europe, and the sales potential is enormous."

fury to welcome Mrs Thatcher. Per- been to probe the burning controver- Berger refused to accept this pro- vive on a profit motive — hospitals,

Holidays affect currencies

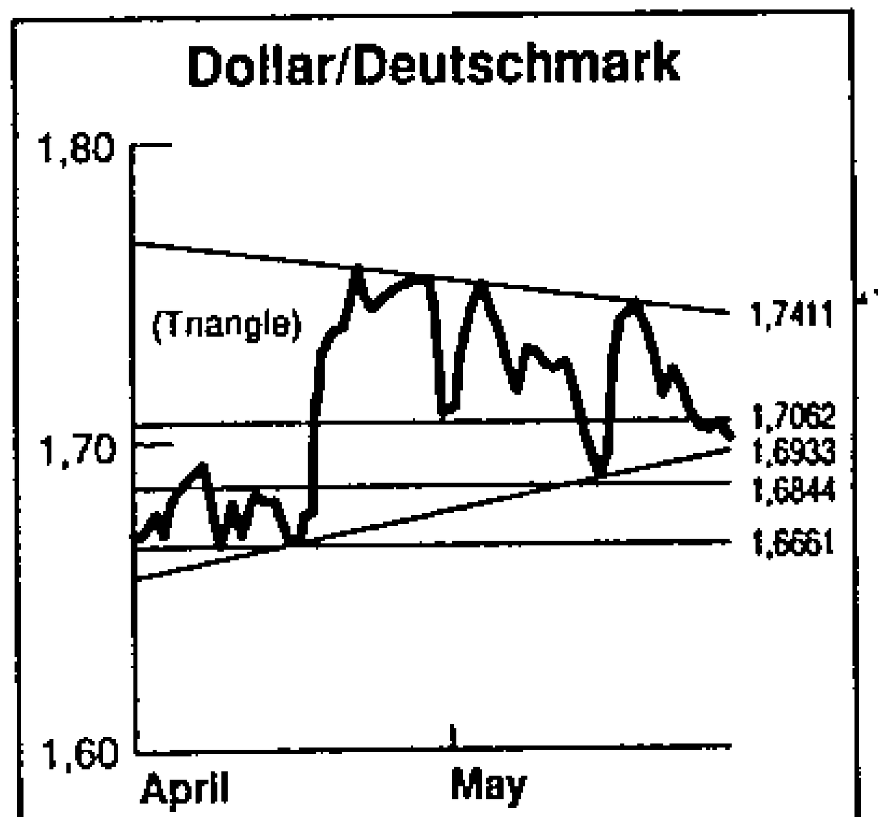
BDay 29/5/91 (58)

SHARON WOOD

SPRING fever in the northern hemisphere, with a succession of holidays during May, has led to sluggish forex markets, which should continue until next week.

Currencies drifted as market observers talked of ranging movements within well-defined bounds. The probable reason for this is an unwillingness to take long positions.

The tendency is to take profits on short movements, up and down, keeping books reasonably in balance.



Graphic FIONA KRISCH Source TELETRAC

The dearth of economic indicators, so often the trigger mechanism in forex markets, left rumour lobbies grasping for straws.

Earlier volatility in the dollar subsided later in the week and the dollar essentially remained within predefined ranges, said Standard Bank in its weekly International Comment.

Positive sentiment towards the dollar because of Sweden's decision to formally link the krona with the European currency unit (ecu) tended to dissipate as the week wore on.

Standard Bank said it became clear later in the week that the necessary dollar purchases had probably been concluded and, in the absence of anything more specific on which to focus, the dollar closed the week well below the levels at which it opened.

First National Bank's technical commentary said the dollar remained firmly rooted within the DM1,6661 to DM1,7411 range. The dollar tested the triangle top at DM1,7411 and fell immediately to the triangle base.

These movements are typical of a market attempting to trigger stop orders, while looking for a direction. A stronger trend will only emerge in June, when the holiday season ends and the pent-up batch of economic indicators are published.

However, the dollar is continuing to show signs of strength and the release of favourable economic US indicators should resume its previous upward surge. It has been improving its position against the European currencies.

In contrast to a quiet week in the US, several major economic indicators were released in the UK. But market response was muted.

Standard Bank says the release of money supply figures and first quarter GDP figures last Tuesday were significant because this culminated in a further 0,5% reduction in domestic interest rates on Friday.

But in the holiday climate markets failed to respond to the encouraging signals.

Money supply figures showed a sharp contraction from the levels prevailing a year ago. Growth figures were slightly better than forex market expected, but still highlighted the extent of the current downturn in the UK.

Technical analysis shows the pound was also involved in testing the parameters of the constricting triangle.

Even though it may break through its resistance at $1,7382, it will have done so from a firm $1,6882 to $1,8000 range dating from mid-April.

The rand weakened against the dollar during the week, against a generally unsupportive gold price and the release of disappointing economic figures, said Standard Bank. Activity was subdued and confined within narrow ranges.

Consumer price inflation and money supply figures released last week were worse than the market expected.

They provided further strength to the belief that interest rates were unlikely to fall this year, because restrictive monetary policy had still failed to yield results.

FNB said the rand was at present attempting to penetrate through its bull channel base at R2,8016.

Standard Bank set the expected trading range for the rand at between R2,77 and R2,82.

The outlook for gold is not encouraging.

Its movements are virtually trendless at present, with interest in the bullion market still at an ebb.

REVIEW

JSE industrial shares edge up to new highs

SB CT 29/5/91

JOHANNESBURG. — Share prices maintained a slightly firmer bias yesterday as modest investor interest trickled back into the stock market.

A weaker financial rand also helped buoy prices, dealers said, but a lack of any significant factors kept activity to a minimum.

The JSE industrial index crept up further to a preliminary close of 3 589 — another new high. This was just a touch above Monday's record high close of 3 602 and previous high of 3 584 on May 23.

The all-gold index firmed to 1 191 from Monday's 1 179 finish and the all-share index to 3 111 from 3 094.

Heavyweight gold share Vaal Reefs ended the day R2 up at R202 and Beatrix 50c firmer at R22,50 in spite of a lack of direction in world bullion prices.

Among other market leaders, diamond share De Beers firmed 65c to R77,50 and mining financial Anglos R1 to R107.

Platinums were basically steady.

Industrials had Barlows 25c firmer at R40,25 and Safren R2 higher at R66.

● **Capital market** rates drifted quietly in narrow ranges yesterday around their recent harder levels as traders continued to search for clear direction.

The market remained uncertain with bearish sentiment maintaining the upper hand, said dealers.

The benchmark Eskom 11% 2007/2009 ended slightly softer at 15,90% after starting a touch harder at 15,93% against Monday's 15,92% close. — Sapa

Paris bank plans to post man in SA

(58) ROBERT GENTLE (788)

BANQUE Nationale de Paris (BNP), France's largest commercial bank, is planning to raise its profile in SA by posting a permanent representative to the Johannesburg office of Commercial Bank of Namibia. (64)

BNP already has a presence here through a 48% stake in Geneva-based bank holding company SFOM (Société Financière pour les Pays d'Outre-Mer), which holds 70% of the Commercial Bank of Namibia. B/Day 30/5/91

Paris-based La Cote Desfossés has reported that the BNP representative would take up his position at the Johannesburg office of Commercial Bank of Namibia "by the autumn". Commercial Bank of Namibia SA manager Herbert Herrmann said in response matters were being discussed.

Commercial Bank of Namibia SA is a totally South African operation which reports to the Reserve Bank. Registered as a foreign exchange dealer, it serves corporate and private clients. The Namibian parent of the same name reported net income of R1,8m in 1990. It has total assets of R388m.

Fedlife swoop on Saambou is challenged

SUSAN RUSSELL (58)

TWO major Saambou shareholders yesterday launched a Supreme Court challenge to the validity of the merger deal which gave Fedlife a 31,5% stake in the building society. BDay 30/5/91

Saambou shareholders Suid-Afrikaanse Prinsipale Beleggings (Pty) Ltd and The CC Exchange (Pty) Ltd brought an urgent application for an order declaring the agreement between Fedlife and Saambou on January 31 void.

Suid-Afrikaanse Prinsipale Beleggings holds 8,5-million Saambou shares and The CC Exchange 3,2-million.

The two companies are also seeking an order declaring invalid approval for the merger deal given by Saambou shareholders at a meeting on May 15.

The court was told that Fedlife and Saambou concluded their agreement one day before the new Deposit Taking Institutions Act came into effect on February 1.

Part of the merger deal involves the sale of Planet Finance Company by Fedlife to Saambou for R55m in return for converting debentures worth the same amount.

Counsel for Suid-Afrikaanse Prinsipale Beleggings and the CC Exchange, Schalk Burger SC, told Mr Justice Ralph Zulman yesterday that the agreement would increase Fedlife's stake in Saambou from 2,6% to 31,5%.

Suid-Afrikaanse Prinsipale Beleggings and The CC Exchange contend that 6,7-million of the 12-million votes in favour of the Fedlife-Saambou agreement on behalf of Eighty One Main Street Nominees Ltd were invalid.

They also claim that the provisions of the merger deal are invalid and unenforceable in terms of the new Act.

It is alleged that Main Street Nominees' representative at the May 15 meeting,

□ To Page 2

Saambou BDay 30/5/91

(58) □ From Page 1

Charles Rheeders, did not have the authority to withdraw a proxy to cast the 6,7-million votes against the agreement and instead vote in favour of the Fedlife-Saambou deal. Burger submitted that those votes should be added to those against.

Burger also argued that in making four simultaneous applications to increase its 2,6% stake in Saambou to 31,5%, Fedlife had contravened the provisions of the new Act.

The Act, he said, stipulated how a shareholder could increase his stake in a building society in stages and the required periods between each new acquisition of shares.

A shareholder could obtain up to 10% without permission from the Registrar, Burger said.

Permission to increase shareholdings from 10% to 30% needed the Registrar's permission.

More than 30% needed Ministerial approval.

Fedlife had made four simultaneous applications to increase its share in Saambou from 10% to 17,5%, 17,5% to 25%, 25% to 30% and 30% to 31,5%, he said.

The Registrar had informed Fedlife by letter that the Minister had granted permission.

Burger argued this was ultra vires because the Registrar and Minister could shorten the period between each acquisition, but had no power to completely waive the required interval.

Applications for permission to acquire a larger shareholding could not be done simultaneously as Fedlife had done, Burger said.

In terms of the Act's provisions, he argued, shareholdings had to be acquired incrementally.

Fedlife, he said, had applied for more than 30% of Saambou's shares at a time when it only held 2,6%.

The Fedlife agreement was therefore unenforceable, Burger submitted.

The case continues.

SFS continues to grow

Star 30/5/91

Finance Staff (58)

Sage Financial Services (SFS), which has recently been incorporated in the giant Amalgamated Bank of SA (ABSA), reported continued growth in earnings in the 15 months to end-March.

Attributable income rose to R42,8 million from R29,2 million in the preceding 12 months to end-December 1989.

The change in the year-end was necessitated by SFS' participation in ABSA, which was officially launched in April. SFS holds 21 percent in Universa, which controls 30,4 percent of ABSA.

SFS' earnings per share of 52,2c are equivalent to 42c on an annualised basis, which would reflect a 16,7 percent rise on the 1989 earnings of 36c.

SFS has declared a final dividend of 15c per share, making a total for the 15 months of 26c compared with 18c in 1989. A total dividend of 19,1c was declared on the convertible preference shares.

The abridged balance sheet shows that total assets of SFS stood at R2,2 billion at the end of March, a significant 25 percent improvement on the R1,7 billion reported at the end of December 1989.

Sage Life, the largest contributor to earnings, increased its earnings from R14 million to R23,5 million, which on an annualised basis reflects a rise of 20,8 percent.

Saambou court battle continues

By Ann Crotty (58) Star 30/5/91

The court battle between NSA/Prestasi and Fedlife, Saambou and Investec continues today in the Supreme Court.

Yesterday the applicants — NSA/Prestasi — put forward their arguments. Today the five respondents will set out their individual responses.

Rulings are being sought on the following points.

- Whether or not Investec properly executed its power of attorney at the Saambou shareholders' meeting called to pass the Planet Transaction.
- Whether NSPB and CC Exchange which have formed an association were, in terms of the DTI Act, restricted to voting 10 percent of the Saambou shares.
- A nominee company's right to vote shares held in a DTI.
- Whether or not Fedlife can hold more than 30 percent of Saambou.
- Whether some 6,75 million shares held by 81 Main St nominee should have been voted against the Planet transaction.

FM 31/5/91 (58)

STRIKING A BALANCE

Nico Marais is a researcher in the Reserve Bank's Department of Bank Supervision. His views do not necessarily coincide with those of the Registrar of Deposit-Taking Institutions.

Bank depositors are not well placed to monitor the portfolio behaviour of banks nor to force banks to comply with prudent management practices. They protect themselves by withdrawing deposits as soon as doubt arises on a bank's ability to meet obligations.

Adverse information about one bank can create doubts about the soundness of others. Lack of information, therefore, can lead to a general run on banks. This *guilt by association* could result in a loss of confidence in the banking sector and could jeopardise a country's payments system.

While deposit insurance would reduce this *systemic* risk, it would remove market discipline. A solution is needed that balances market discipline and security for depositors.

Risk-based insurance premiums theoretically determine such a balance. Unfortunately, most bank failures can be attributed to incompetent and imprudent management — risk which is not easily measured.

Perhaps the most effective market discipline will be the lifting of all restrictions on shareholdings in deposit-taking institutions.

The highly concentrated nature of the economy is a controversial issue. However, the fact is that where a bank has many small shareholders, not one of them will be able to act decisively in the case of perceived bad management. Experience has shown that large shareholders quickly replace directors and management in the event of unsatisfactory performance.

Universal banking in Germany, which is rapidly spreading through Europe, has also proved that banks are, in general, not exploited by large shareholders. They are assisted in times of trouble rather than discarded. The danger is, however, that where Big Brother fails, the bank goes with him.

A second market-orientated measure is proper disclosure. The more information is available, the less impact rumours in the market will have. Two suggestions are made.

Firstly, banking institutions should, with Canada as an excellent example, disclose more information in their financial statements. Secondly, the role of rating agencies should be recognised. They should be given access to the most up-to-date information.

Such market-orientated measures address the essential risk of bad management while countering the potential damage rumours can cause. But they do not, on their own, provide comprehensive *deposit insurance*. The authorities, too, have an important role.

Firstly, supervisors (and shareholders) should ensure that directors fully understand their responsibilities. (This should, however, not result in regulation of responsibilities on top of the Companies Act.)

Secondly, the authorities should continue to provide the Reserve Bank lender-of-last-resort facility to help liquidity problems but not bail out insolvent banks. It is important to distinguish between the operation and mission of the Registrar of Deposit-Taking Institutions and the Governor of the Bank.

A bank threatened by imminent failure should request help from the Registrar. He should, in line with the policy advocated by the World Bank, approach the Minister of Finance for State intervention. The Minister can then call on the Governor to intervene, thereby clearly establishing the independence of the central bank as well as indicating to the public the amount of public funds to be used for a rescue operation, which in itself is a very strong market discipline.

Thirdly, the Registrar should continue, in terms of current legislation, to enhance proper risk management.

Fourthly, authorities should consider limited standard deposit insurance, similar to that in Britain, to protect the broader public. This should constitute a certain percentage of all deposits smaller than, for example, R10 000. This will not create a moral hazard, as banks will still face the discipline of shareholders, who are the first to lose their investments, and large depositors.

In combination, market discipline and government intervention will provide an effective form of deposit insurance.

Absa's Badenhorst ... *the accounting is conservative*

ABSA FM 31/5/91 (58)

SHOWING MUSCLE

Though Amalgamated Banks of SA (Absa)'s first set of accounts offer little with which to gauge the group's earnings performance or prospects, it provides a useful glimpse of the institution's balance sheet and the opportunities for rationalisation.

Preliminary figures for the year to end-March comprise the full contribution of UBS Holdings, six months of the Allied and Volkskas groups and three months from 49%-held Sage Financial Services. Not surprisingly, the figures bear little relation to the UBS figures for financial 1990, which are published with the results, and manage-

FM 31/5/91 (56)

ment has not attempted to provide pro forma figures for the previous year. Absa chairman Herc Hefer says this would have been too hypothetical.

Probably most meaningful is the disclosure of Absa's asset base of R51,83bn — by far the largest of any financial institution — NAV of 622c and EPS of 93,4c. EPS is based on a weighted average of 344m shares in issue during the 12-month period, compared with 457m shares issued by year-end. Attributable earnings growth in the coming year will have to be substantial if EPS are to show a satisfactory improvement. The dividend is 36c a share with the cover at 2,6 times, though management is aiming for a three times cover.

Though Absa's return on assets (excluding acceptances) has, as expected, dropped below the UBS's 1,36% last year it remains an impressive 1,01. This compares well with most of the group's rivals. Absa's 5,71% capital adequacy ratio (shareholders' funds as a percentage of total assets) is also ahead of major competitors. Return on shareholders' funds of 15,4% is an improvement on the UBS's 14,3% last year, but lags those of First National and Standard.

Provision for bad debts is a conservative 1,24% of total advances, compared with 0,65% set aside by the UBS last year. The big difference was mainly due to the incorporation of Volkskas.

Presenting the figures, CE Piet Badenhorst stressed Absa's conservative accounting. Not only were merger costs of R49m (including up to R16,8m to be paid to FNB in terms of agreement reached over the Allied takeover) written off, but there were also substantial write-offs resulting from adjustments to the accounting policies of Allied and Volkskas. A R79,1m premium on the assets acquired from Sage was also discounted.

Rationalisation of services and facilities at the United, Volkskas and Allied divisions of Absa has already begun, but Badenhorst says benefits of such moves could take up to two years to show on the bottom line.

The six computer centres the group inherited will be reduced to two by year-end, the

FM 31/5/91 (58)

head office functions are being merged, the insurance operations are to be combined and the three branch networks are under review. Headcount, currently at 26 583, will be addressed from June. Reductions appear inevitable, though Badenhorst says it is too early to determine the staff levels needed.

With the group's internal rationalisation programme only just under way, and the economic and political environment uncertain, management is reluctant to forecast earnings growth for the current year — though Hefer is confident EPS will improve.

Investors appear bullish on the group's prospects. The share has appreciated significantly in the past few weeks and at 895c stands on a p:e of 9,6 and a dividend yield of 4%. This compares with FNB's p:e of 8,7 and SBIC's 11,6.

Simon Cashmore

INSURANCE FM 31|5|91 (58)

GENERAL ACCIDENT'S CASUALTY

General Accident (GA)'s troubles continue. This week top executives were subpoenaed to give evidence in the magisterial inquiry after the winding-up of RTS Techniques (*FM* May 17). Among those ordered to appear were Nico Fourie, assistant registrar short-term insurance at the Financial Services Board (FSB), a forensic science expert, and the loss adjusters investigating a R2m fire claim by RTS against GA.

Fourie was expected to testify about the latest financial returns to the FSB, which disclose a 1990 underwriting loss of about R62m. Earlier estimates had GA losing R25m, of a total R50m underwriting loss for the short-term industry as a whole. As the picture becomes clearer it looks as though industry losses are more like R200m-R250m. While some business is reinsured, most losses are in personal lines, and for insurers' own account.

GA is controlled by General Accident UK - "The Perth." First National Bank and ·uthern Life have substantial minority ıldings. Last month these three subscribed ·R21m new capital to get GA's solvency on a more healthy footing.

It may not be enough. Analysis of GA's return to the FSB shows that, without the R21m, its solvency margin (international measurement) would have been dangerously low, under 17%. With the injection, the solvency margin rose to 26,5% (international). The new capital seems to be finely tuned to bring GA to the 25% margin with which FSB feels comfortable. It is apparent, also, that GA has strengthened its claims reserve, which would make underwriting losses seem worse. Offsetting some losses, GA has more than R30m investment income.

Yet how much of GA's losses still have to come through? An industry norm is 12-18 months to get rid of the effects of bad underwriting. It is possible margins will decline again before GA's health is fully restored. That's true, also, of other underwriters which have reported poor results.

It's against this background that GA has to give evidence in the RTS case.

The sum involved is, to a company of GA's resources and parentage, trifling. Evidence of the forensic expert and the loss adjusters may shed light on why GA did not settle.

Some facts are not disputed. RTS did not make timeous repayment of R70 000 borrowed from Freeflow Trading (Lesotho) (Pty). On March 23 1991, RTS's MD told Allan Rabbie of Freeflow (a personal friend) that his business premises had been broken into. A fire ensued and losses of more than R2m were incurred. This made it impossible to repay the loan until the insurance claim was met. Freeflow then sought a winding-up order against RTS.

Flowing from that action, attorneys for Freeflow and RTS's liquidators arranged this week's hearing to determine, among other things, why the insurer has not paid.

GA insists it has not repudiated the claim but is still investigating it. Because of the subpoenas, it won't comment further.

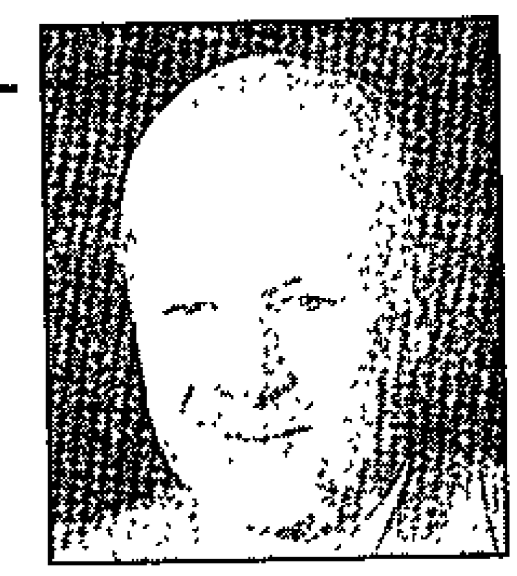
☐ Solvency margin is defined in SA legislation as the assets surplus as a percentage of net premium income (NPI) — which is deemed to be gross premium income less premiums ceded to local reinsurers. The international ratio includes all foreign reinsurance, plus technical reserves, as a percentage of the NPI. The statutory SA margin is 15% but FSB has shown concern when insurers reflect anything lower than 25%. ■

PEGASUS LIFE FM 31/5/91

TOPPING UP (58)

Crusader Life's UK toehold, a 26% interest in Bristol-based Pegasus Life, gets an unusual change of leadership on June 1. Peter Sim-

FM 31/5/91



Simkins (58)

kins (53), for seven years senior partner of Johannesburg lawyer Deneys Reitz, assumes the position of CEO. He's by no means the first South African to hit the UK life industry but, unlike predecessors such as Mark Weinberg, Simkins has a purely legal background. Deneys Reitz, where he spent 32 years, specialises in advising insurance and banking organisations so, from that point of view, Simkins has plenty of theoretical knowledge.

The career change, he says, was motivated partly by frustration at being an adviser in many high-level negotiations, without being a player. When Crulife MD Don Rowand became aware of Simkins' availability, he introduced him to the Pegasus board.

Simkins' mission is to grow Pegasus quickly, which will inevitably bring new business strain, so the target includes a stock exchange listing within five years to strengthen the capital base. Pegasus, says Simkins, has good management and, for its size, the best computer-based operation in the UK

It has no intention of challenging the giants but will be a niche player concentrating on dread disease products, hospital plans, credit protection policies and the like.

Pegasus has a small force of broker-consultants serving the intermediary market but, rather than expand this suddenly, Pegasus is pioneering the use of telesales. "For reasons I can't understand, no UK insurer has so far caught on to the telesales technique," Simkins remarks.

Thatcherite reforms gave UK employees more freedom of choice in funding pensions. Pegasus has no immediate plans to take on pension fund management but its products, Simkins says, are ideal for "bolt-on" policies to fill gaps in health protection programmes. ■

FM 31|5|91 (58)

year by 33% to R65,5m, recurring premium income has grown over the past six years at a compound rate of 30% a year. Individual life recurring income — the core of the business — was up last year by 33%.

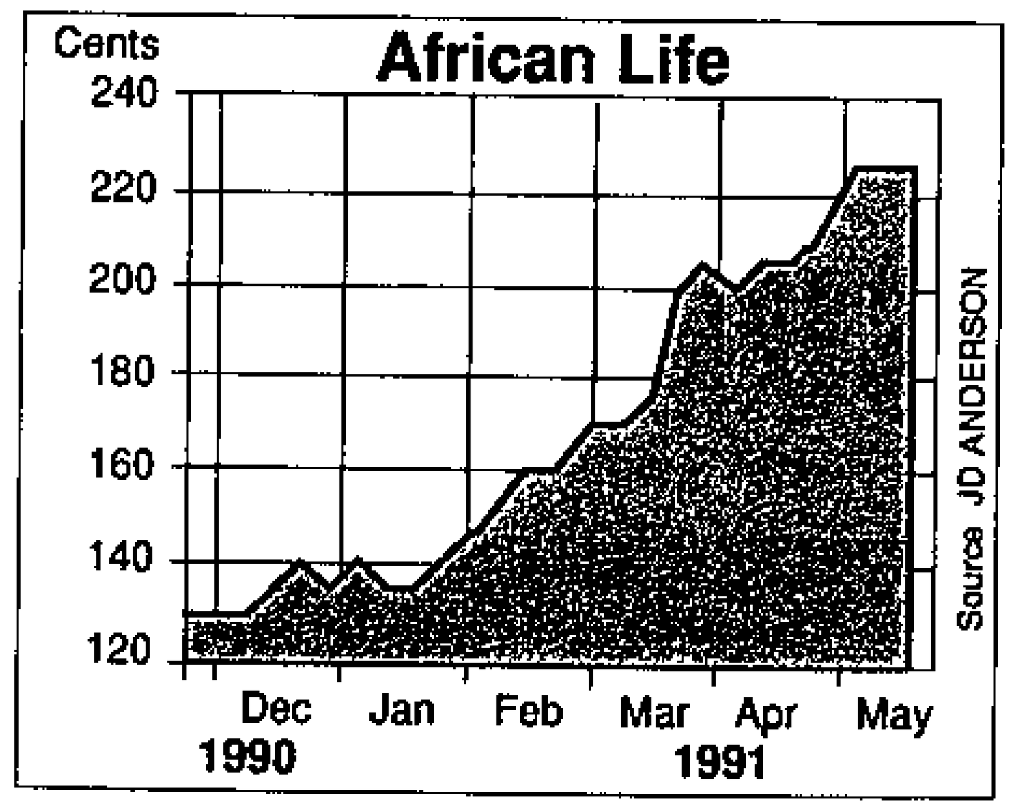
The company is a relatively small life assurer, with total assets of R209m at March 31. Inevitably, the question arises of whether the balance sheet can sustain growth of this pace, and whether there is any risk of new business strain forcing a sudden slowdown.

MD Bill Jack says not. "We are very well capitalised," he says. "We could grow at 35% annually for the next five or six years without needing any additional funds." After capital issues during the 1990 and 1991 financial years, the shareholders' interest has more than tripled, to R55m, and now accounts for nearly a third of total funds.

That would appear to rule out any large rights issues before, say, 1996. However, the group will benefit from an effective rights issue each year. Shareholders will have the option of a bonus share issue in lieu of a cash dividend. Last year they were offered three ordinary shares for every 97 held, and most accepted. Over time this process should help to strengthen the capital base and also improve the tradeability of the share — an important consideration, when 78% of the equity is held by Southern Life.

It is notable that last year marketing and administration expenses rose by 13%, somewhat less than the inflation rate. That helped to soften the effects of the 27% increase in commission and related costs — though this is roughly in line with the growth in new business, and, in Jack's view, is no cause for concern. Benefits paid to policyholders were up by 36%.

African Life is primarily a low monthly premium assurer and pitches its marketing accordingly. As urbanisation continues, the group's products and distribution methods are to be adapted. Jack reckons market share was increased over the past few years "quite significantly," and he sees no reason this



should not continue.

This will be achieved through expansion of existing distribution systems and new developments. The number of sales representatives will be increased, and the group will seek a greater presence in the broker market, particularly with focused products. African Life has moved into group business, which is expected to have a significant impact on results in future years.

For the 1992 financial year, chairman Adrian Arnott says shareholders can expect an increase in earnings ahead of the rate of inflation. Assuming EPS of about 18c, the share currently stands on a prospective p:e of 11,7. African Life, as a well capitalised growth stock, still looks cheap when compared to other life assurers. *Andrew McNulty*

African Life's Jack ... *increasing market share*

AFRICAN LIFE FM 31|5|91

FUNDING GROWTH (58)

Activities: *Life assurance and investment of funds derived therefrom.*
Control: *Southern Life Association 78%.*
Chairman: *A H Arnott; MD: W A Jack.*
Capital structure: *56,8m ords. Market capitalisation: R119m.*
Share market: *Price: 210c. Yields: 4,7% on dividend; 7,3% on earnings; p:e ratio, 13,7; cover, 1,6. 12-month high, 230c; low, 130c. Trading volume last quarter, 700 000 shares.*

Year to March	'87	'88	'89	'90
Shareholders' int (Rm)	14,5	16,5	47,9	55,1
Life fund (Rm)	78,6	101,6	124,1	125,5
Investments (Rm)	90,1	111,1	160,1	172,4
Premium income (Rm)	25,3	35,1	49,9	66,2
Invest income (Rm)	5,1	6,7	11,2	15,0
Earnings (c)	6,30	7,88	12,30	15,3
Dividends (c)	4,20	6,30	7,90	9,8

African Life must rank as one of the more successful listings of recent years. Since the flotation on November 15, the price has increased from 130c to 210c; the company has continued its expansion and the disclosed earnings and the dividend were ahead of those forecast in the prospectus.

This maintains a growth rate that has been high for some time. After rising last

Continue →

SOUTHERN LIFE FM 31/5/91

RECORD UPHELD

(58)

Despite a disappointing investment income performance, Southern Life still managed to increase its taxed surplus (earnings) by 20%. This was not far behind the average of 23,6% for the previous five years.

Investment income grew by just 6,8%, well below the average 1985-1990 growth of 18,2%. This would have reflected poorer dividend payouts during the recession, rather than inherent weaknesses in Southern's portfolio, whose major holdings include various companies in the Anglo American camp such as First National Bank and De Beers. Chairman Neal Chapman says Southern will not diminish its exposure to equities, which, he says, have proved over time to be better investments than property or fixed investments.

Southern is well capitalised; it has life funds of R13,2bn, compared with total liabilities of about R900m. It is the fourth largest life assurer with 660 000 policyholders, and had a steady 16,1% growth in premium income last year. The key new recurring premium income figure grew by 24%.

Chapman says he is confident Southern can maintain its growth pattern. But he says it has never been the aim to increase market share for its own sake. Chapman says Southern has sufficient critical mass not to seek acquisitions, and it is not on the acquisition

FM 31/5/91

(58)

trail.

Chapman is confident the consequences of the Aids epidemic are being taken care of in Southern's Aids reserve, which is capitalised at more than R100m. He adds that Southern will be developing health-related short- and long-term cover policies with its medical aid administrator Affiliated Medical Aid, which is now wholly owned. Much of Southern's future growth will also depend on the success of its new products, particularly the Provider policies which include provisions for education, families and cash.

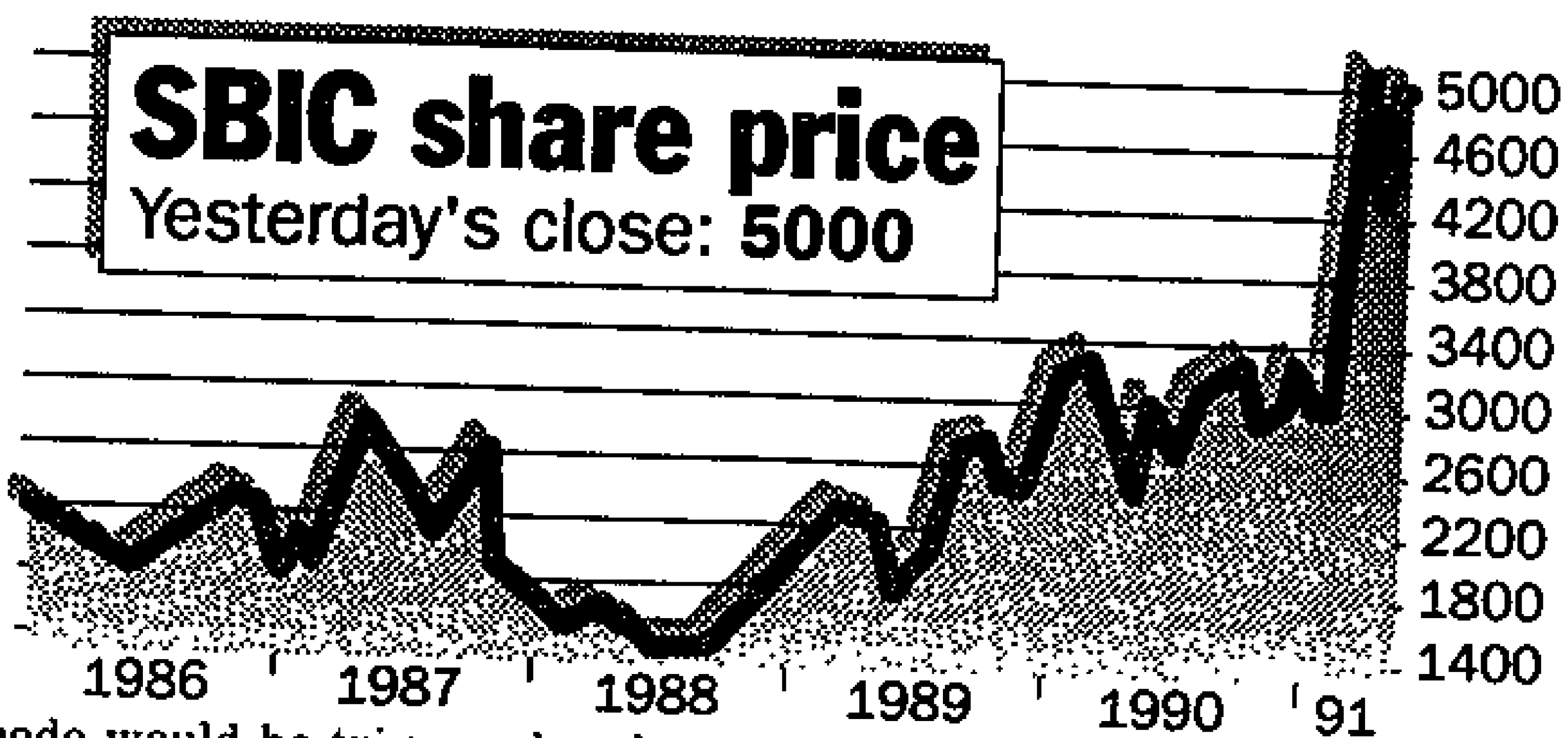
The share is trading on a historical earnings multiple of 19,2, some way behind Liberty Life's 31,1. Southern claims to have outperformed Liberty over the past seven years with its growth in premium income, earnings and dividends, but Liberty's higher rating may partly reflect its larger offshore portfolio. However, a life assurer with Southern's record remains a good long-term investment.

Stephen Cranston

Liblife strengthens grip on Stanbic

Star 31/5/91

By Ann Crotty S8



The circle of control between Standard Bank Investment and Liberty has been secured with the acquisition by the Liberty Life Group of 4,5 million Stanbic shares from Remgro at R45 a share.

In a deal valued at over R500 million, Remgro has sold off all of its 11,3 million Stanbic shares at R45 a share.

(In a related deal Richemont has sold 43 million shares in Transatlantic to one of Liberty Life's UK subsidiaries for £150,6 million cash or £3,50 a share.)

In addition to the 4,5 million Stanbic shares that Liberty is acquiring, Liberty Asset management has placed (on behalf of Remgro) a further 1,8 million shares at R45 with certain institutional investors. (These investors are not considered concert parties by the Securities Regulation Panel.)

Pension funds

The remaining 5 million shares will be placed by Libam with other pension funds and institutional investors before theend of June next year.

The price at which these shares will be placed will be determined by a formula but will not be less than R45.

In terms of the new Securities Regulation Code, Liberty will have to ensure that none of the parties taking up any of these 5 million shares is deemed to be acting in concert with Liberty.

If they were found to be acting in concert, Rule 8.1 (b) of the code would be triggered and an offer would have to be made to SBIC minorities at the highest price paid by Liberty.

Given the unfriendly stance taken by Old Mutual at the recent SBIC annual meeting, Liberty will have to strike a delicate balance between friendly investors and investors who could be deemed concert parties.

Old Mutual has a 20,3 percent stake in SBIC which puts it in a position to be able to block special resolutions as it did at the SBIC agm.

Liberty chairman Donald Gordon recognising this point states: "We would see that the 5 million shares did not get into the hands of investors who would be difficult. They would be top-rated investors who would want to see Stanbic being developed but they would not be concert parties."

Adding: "We have a right to see where these shares go but there would be no question of concert parties being involved."

As a result of this deal Liberty Life and its associates will have a 40 percent stake in SBIC. (Indicating that ahead of the deal they had 35,6 percent.)

In terms of the SRC, Liberty cannot add more than 5 percent a year to its existing percentage stake without precipitating an offer to minorities.

This suggests that there is scope for Liberty to take some of the 5 million shares over the next 12 months as SBIC is set to issue additional shares in terms of its share option scheme. In addition shares may be issued to effect acquisitions.

According to Mr Gordon this means that more shares can be acquired by Liberty, in order to hold its stake at 40 percent of the enlarged capital base, without contravening the SRC rules.

Mr Gordon says he is delighted by the whole transaction — both the Transatlantic leg and the SBIC leg.

Rationalisation

Referring to the SBIC deal he says: "It is a rationalisation that needed to be done following the ABSA transaction." He describes the R45 a share price as a reasonable one for an outstanding asset.

Mr Gordon stressed that it did not signal an end to the Liberty/Remgro relationship which he describes as "still cordial" and points out that Liberty has substantial investments in Richemont and Remgro.

Analysts regard the Stanbic deal as an excellent move for Liberty. Speculation that Remgro may have orchestrated the recent surge in the share price in order to sell off its stake at a high level is dismissed. Analysts believe that the R45 was a reasonable price to pay to secure the control position of SBIC — and in turn the control position of Liberty.

In recent months there has been speculation that Remgro might link up with Old Mutual in an attempt to undermine Liberty's position vis-a-vis SBIC.

Given the fact that Liberty had placed the SBIC shares, at R18,75 a share, with Remgro back in 1986 when Standard Charter pulled out this could have been viewed as a very unfriendly move on the part of the Stellenbosch group.

First right

At the time of the disinvestment, Liberty had first right of refusal on Standard Chartered's entire shareholding.

Mr Gordon notes that back in March, Liberty applied for permission to increase its stake in SBIC to 49 percent. This was in line with the requirements of the new Deposit Taking Institutions Act. He states that permission was sought automatically when the act was introduced.

● The Transatlantic deal will result in Liberty Life and FIT having a combined 67 percent stake in Transatlantic.

The Transatlantic deal is being funded through existing offshore banking facilities, other offshore resources and remittances through the financial rand.

Richemont explains that as it no longer considered its shareholding in Transatlantic to represent a core investment in the Group the sale was in the best interests of shareholders.

Saambou, Fedlife contest ruling

Star 3/5/91

Staff Reporter (58)

Saambou and Fedlife objected to an amendment to an application in the Rand Supreme Court yesterday to declare the recent merger of the two companies invalid.

New South African Investments (Pty) Ltd and the CC Exchange (Pty) Ltd have brought an urgent application against Saambou Holdings Ltd, Investic Bank Ltd, Eighty One Main Street Nominees, Fedlife Assurance Ltd and the Registrar of Deposit Taking Institutions.

P Solomon, SC, acting for New South African Investments and the CC Exchange, yesterday submitted an amendment asking for part of the deal, if not the entire deal, to be declared invalid.

M Kuper for Saambou and B Doctor for Fedlife objected, saying they were prejudiced as they had not addressed the court on matters raised in the amendment.

Fedlife had not acquired shares in Saambou, but merely held debentures. It could decide at the end of 1994 whether or not to convert these into shares, he said.

Schalk Burger, SC, also acting for New South African Investments and the CC Exchange, had argued that the conversion to shares would go against the Deposit Holding Institutions Act of 1991.

Proxy votes at a shareholders' meeting was another bone of contention between the parties. Mr Kuper and Mr Doctor said proxy votes which had not been cast could not be counted as votes.

"I've heard of pig's ears being turned into silk purses, but it's forensic hypnotism when you're told what to do with an unused proxy," Mr Kuper said.

Mr Justice Zulman heard on Wednesday that Charles Rheeders, who voted in favour of the merger with proxy votes, had not been properly authorised to act for Eighty One Main Street Nominees. At the meeting Mr Rheeders had withdrawn a proxy form to vote against the merger.

Judgment will be given on Tuesday.

HOUSING — 1 FM 31/5/91 (58)

REQUIEM FOR A MORTGAGE

The banks and building societies are rapidly closing off the tap on lower-cost black housing loans as they see their underlying assets threatened by township violence and their administration costs forced up by constant repayment boycotts.

United, the country's biggest housing financier, admits that in all but exceptional circumstances it has, because of conditions in the townships, stopped providing home loans in these areas. And, it adds, other institutions are following suit in deed if not word. This hardline approach is brought about by a vicious circle of lawlessness, violence and bond boycotts that puts investor funds at risk. Even when attempts are made to recover losses through repossession and resale of properties, such action is frequently blocked by violent community reaction, often directed by the notorious street committees.

United's GM home loans, Piet Kruger, says the organisation has not been active in the market for some months. "We sympathise with would-be buyers but this is purely a commercial decision. We will return to the market when the political difficulties in these areas have been resolved."

Home builders confirm that the United approach is also held by other institutions. As a result, they believe instead of the 200 000 new homes needed each year, fewer than 30 000 homes are likely to be built for blacks this year. They sympathise with the institutions' need to protect investor interests. However, they point out that it is also hammering another nail into the black housing coffin.

They add that while United has pulled out, the Perm, by far the largest lender to blacks, is still active in the arena, though whether it will remain so with the departure of MD Bob Tucker is uncertain. Standard and First National banks are reported to be becoming aggressively involved in the black market. The NBS, having had problems with bond boycotts at Khayelitsha in the western Cape, is now believed to be shying away from the market, though NBS denies this. Allied is also perceived to be backing off rapidly. There is also speculation that, though Saambou has been growing its black bond book recently, it is also on the verge of pulling in its horns.

While there are new entrants into black housing it is stressed that they are starting from a low base. Furthermore, while some institutions may claim to be willing lenders, branch managers interpret policy in their own way. The result is that mortgages are extremely difficult to come by for many blacks. Conditions for providing the finance are so stringent that the lenders are, in reality, only paying lip service to the market or loans are only available for the most secure areas.

NBS assistant GM, Trevor Olivier, says the situation in the townships has deteriorated to such an extent that developers cannot deliver houses. "They have just had to can their operations. Few of them are even building. Nevertheless, where appropriate, we are granting loans to blacks. The point to consider, however, is that while the black population desperately needs housing it has to make a contribution to preventing violence."

FNB's Pat Lamont stresses that his organisation adopts a pragmatic approach to housing finance. "We will look at every application in terms of its merits. We will make the finance available where it makes good business sense. It is based on a simple, and we believe, responsible, risk approach. It is irresponsible to put a man in a home which he cannot afford. Area is another risk factor to be taken into consideration, as is a person's job."

Contractors point out, however, that the provision of finance is only one of the problems that is rapidly strangling what is left of the country's black home building industry. Bureaucratic delays in land proclamation are also still a major problem. When added to the subsequent difficulty in marrying up buyers and bonds, the resulting extended holding cost implications jeopardise the viability of many projects.

National Association of Home Builders (NAHB) chairman, Gavin Hardy, says the situation is extremely grave. There is virtually no low-cost home building industry left. "One cannot blame the institutions, but it is extremely difficult to get bonds for blacks. While State interference in the free market should be avoided, there is a strong argument for imposition of prescribed investment legislation for pension funds, insurance companies and lending institutions. A tiny fraction of their income would be sufficient to raise about R5bn a year for low-income housing expenditure. Alternatively we will soon be reaching a stage where emergency aid will be needed to contain the crisis."

Group Five's Theuns Kotzee sums up his view by pointing out that certain institutions have a black-out on black housing finance. "Others are still in the market. They realise that not all black areas are beset by unrest and boycotts. Some lenders will still provide home loans where they believe the communities are responsible.

"We cannot expect to solve the crisis as long as we look for solutions through individual ownership. Housing must also be provided on a social basis. There are ways through the morass if the problems are tackled sensibly, possibly adopting an engineering rather than administrative approach."

He disagrees with a widely held view that many of the black communities deserve little sympathy when housing finance is cut off because the violence and bond boycotts are self-inflicted problems.

"This is not so. More than half the actions are economically, rather than politically, motivated. The fact is that we (the establishment) unwisely enticed people into situations which we should not have.

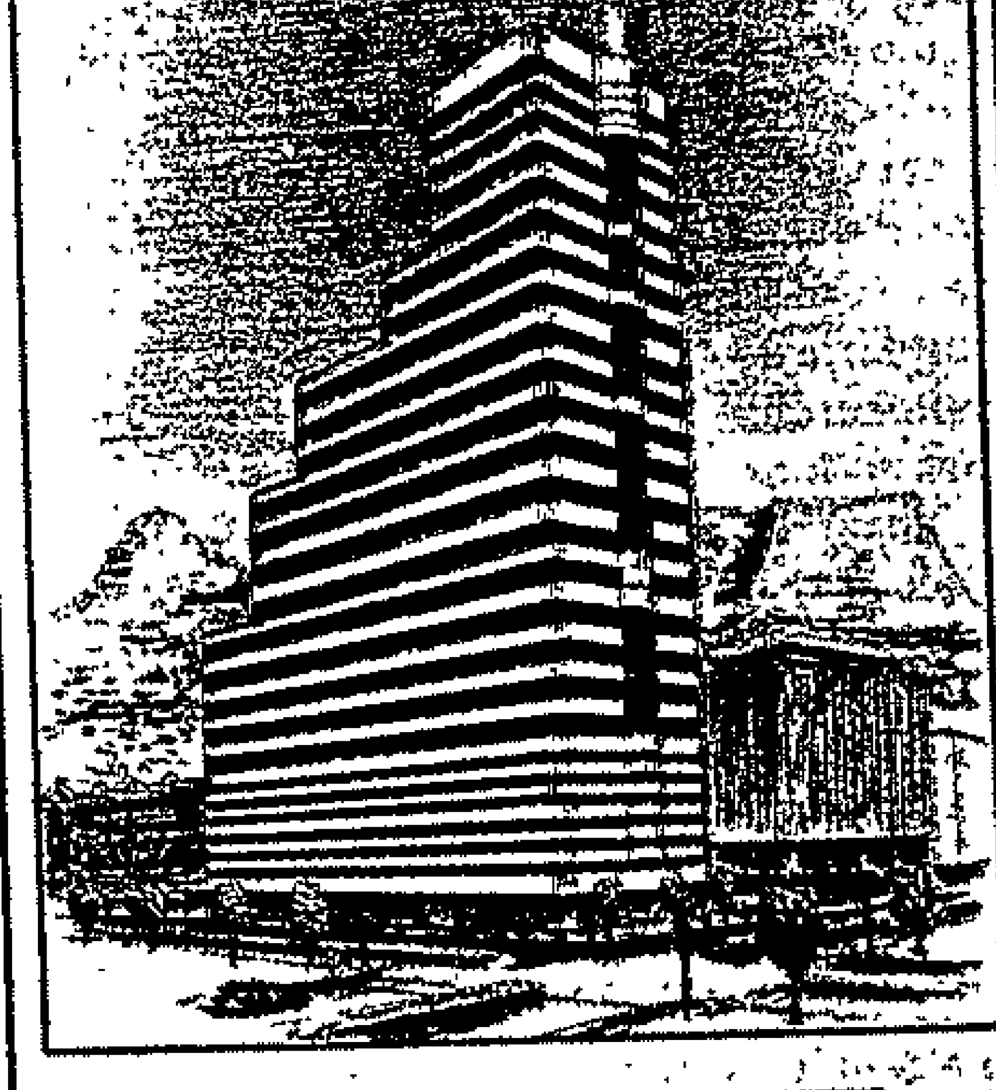
"Then because of good economic policies which are totally out of kilter with political developments, interest rates screamed up and people lost jobs and even those who didn't, found it impossible to meet bond repayments. Worst hit were the blacks and in such circumstances boycotts are an act of desperation." ■

NEW MET FLAGSHIP

Cape-based life insurer Metropolitan Life has announced its biggest property investment yet in the Mother City. It's investing R75m in a 27-storey office tower which will provide 14 376 m² of basic accommodation, 2 767 m² of executive suites and 876 m² of retail space. The complex will provide ample parking with 24 hour security, as well as public parking in the vicinity.

The development will be situated on the corner of Coen Steytler Avenue, Long and Jetty streets. Special care was taken to ensure that the building will complement the city's existing architecture.

Construction is about to begin and the building is scheduled for completion by April 1993.



Liblife to control Sbic

(58) 31/5/91

Rembrandt Group sells 4,5m shares for R202,5m

By AUDREY D'ANGELO
Business Editor

LIBERTY LIFE ASSOCIATION of AFRICA (Liblife) has gained control of the Standard Bank Investment Corporation (Sbic) by buying 4,5m shares from the Rembrandt Group (Remgro) for R202,5m in cash.

This, in addition to their existing holdings, gives Liberty Life and its associates about 40% of Sbic's issued share capital.

Liberty Asset Management (Libam) will place a further 1,8m Sbic shares with other institutions on behalf of Remgro, with a remaining 5 046 291 to be placed with pension funds and institutions in the coming year.

Liberty Life and its overseas arm, First International Trust (FIT), have also bought control of London-based TransAtlantic Holdings from Compagnie Financiere Richemont (Richemont), the Zurich-based company to which Rembrandt hived off its overseas operating companies.

The announcement ends speculation that control of Sbic might pass into hostile hands following the formation of Amalgamated Banks of SA (Absa) in which Remgro has a major interest.

And it is another move towards the rationalisation of SA's banking industry, as it prepares for an increasingly tough and competitive environment with the ending of this country's isolation from the international financial world.

A statement issued by Liberty Life and Remgro yesterday said that Remgro had sold 4,5m Sbic shares — equivalent to 4,4% of the issued share capital — to Liberty Life for R45 each.

In terms of these arrangements Libam "has placed on behalf of Remgro a further 1,8m shares in Sbic (1,8%) at a price of R45 a share" with buyers not considered by the Securities Panel (SRP) to be parties acting in concert with Liberty Life.

"The balance of Remgro's holding, consisting of 5 046 291 Sbic shares (5%), will be placed by Libam at a formula price, which will result in a price of not less than R45 a share, with other pension funds and institutional investors prior to June 30, 1992."

If these shares are not placed by that date, the statement continues, Remgro can oblige Liberty Life "to procure the purchase from Remgro of the relevant shares" at a price between R45 and R50 each.

The SRP has ruled that if Liberty Life or any parties acting in concert with it acquire these shares in addition to the 4,5m shares they have just bought, it will be considered to have exceeded the limit in terms of the Securities Regulation Code on Takeovers and Mergers.

"If the relevant limit is exceeded, the SRP will (unless it otherwise rules, require Liberty Life to make an offer to the minority shareholders of Sbic at the highest price paid by Liberty Life."

The statement says these arrangements have been approved by the relevant authorities.

The statement says that Liberty Life, through a wholly-owned UK subsidiary TAI Investments, and FIT, through its wholly-owned UK subsidiary Conduit Insurance Holdings, have bought Richemont's stake of 43 021 334 shares in TransAtlantic Holdings for £150,6m based on a price of £3,50 a share.

TransAtlantic will become a subsidiary of Liberty Life and FIT, who will have a combined shareholding of 67%.

The announcements confirm market rumours this week.

Bill McAdam, CE of the Board of Executors, said yesterday that he hoped Libam would offer Sbic shares to his company. "We would be keenly interested."

McAdam pointed out that the recent scramble for Sbic shares has shown that a battle for control was in progress.

"It would appear that this has now been resolved and it is obvious that there has been a parting of the ways between Rembrandt and Liberty Life, who has been developing a close association."

McAdam said the deal "obviously arises out of the formation of Absa". It was possible that the banking world "might see more unifications in line with Absa".

The rift between Liberty Life and Rembrandt was pointed out by Cape Times columnist Ari Jacobson during the battle for control of Allied Building Society, now part of Absa.

[Threat of action] over power cuts

WILSON ZWANE

THE Vaal Civic Association said yesterday it would launch "retaliatory" action against power cuts in six Vaal Triangle townships, including Sharpeville and Sebokeng.

The warning came after Lekoa town clerk N P Louw said electricity to the townships, under the jurisdiction of the Lekoa City Council, would be cut from 2pm today "unless 70% of the residents pay their April and May accounts".

"We have decided to cut off power in the afternoon so as to give people a chance of paying their accounts. But I doubt that 70% of the residents will have paid by noon," he said.

He said as a result of a "long-standing rent and services boycott" more than 90% of residents in the six townships had not been paying for electricity, water, sewerage services and refuse removal.

Louw said his council had no financial resources to pay the R6,6m it owed its bulk electricity suppliers — Eskom and the Vereeniging town council — and that negotiations with the civic association had broken down. B|Day 3|6|91.

Association chairman Malak Madise said yesterday his organisation viewed the power cut as a strategy aimed at "coercing people into paying tariffs they cannot afford".

He would not, however, disclose what form of action his organisation had decided on.

Education draft has ANC support

B|Day 3/6/91

BILLY PADDOCK

CAPE TOWN — A major education reform plan, which will involve compulsory attendance at primary schools, has been discussed by the ANC/government education working group and has the tacit approval of the ANC.

Government officials yesterday stressed that the Education Renewal Strategy document would not be implemented without consultation with all political parties.

Key features of the plan, to be announced tomorrow, are free and compulsory primary schooling for all South Africans, with a marked shift in emphasis towards job training.

The officials said government was not ruling out holding a major conference at which the document would form the basis of a far-reaching discussion on a new education system.

The plan is the product of a 15-month investigation led by National Education director-general Johan Garbers.

Democratic Party education spokesman Roger Burrows said the plan was in line with recommendations by the World Bank, which stressed the need for universal primary education and a technical secondary education.

National Education officials were cagey about details, but said the plan envisaged a dramatic shift from the academic bias of the present system.

Key features of the plan include:

- All children provided with compulsory, free education up to Std 5;
- That this formative education be centred on a course syllabus of reading, writing and arithmetic, to produce literacy and numeracy by the age of 13;
- Parents paying part of the cost of schooling if they wish their children to pursue a conventional academic secondary education;
- Dramatic changes in "streaming" secondary education; and
- Far-reaching changes in tertiary education, including the upgrading of university entrance standards and the expansion of technikon facilities.

Sapa reports the education plan has been rejected by the Azanian Students' Convention (Azasco), which said it would not attend any conference on the proposals.

Azasco publicity secretary Sipho Maseko said in a statement that the plan "does not in any way address itself to the crisis in education from primary school through to tertiary level in a black perspective".

Ruling on Fedlife deal is expected tomorrow

SUSAN RUSSELL

58

A RULING on the validity of the deal which will give Fedlife a 30% controlling stake in Saambou will be given in the Rand Supreme Court tomorrow.

Saambou shareholders Nuwe Suid-Afrikaanse Prinsipale Beleggings (Pty) Ltd and the CC Exchange (Pty) Ltd brought an urgent application last week challenging the validity of the merger deal.

They have asked for an order declaring the agreement, which provides for Fedlife's acquisition of 30% of Saambou, void and unenforceable.

Both companies have also applied for an order declaring invalid approval for the deal given by Saambou shareholders at a meeting on May 15.

Nuwe Suid-Afrikaanse Prinsipale Beleggings and CC Exchange hold 8,5-million and 3,2-million shares respectively in Saambou.

They maintain implementation of the deal will not be to the advantage of Saambou shareholders.

Fedlife already holds a 2,6% stake in Saambou.

The agreement between Fedlife and Saambou on January 31 this year provides for the issue of convertible debentures by Saambou to Fedlife.

If Fedlife exercises its option to convert the debentures into shares it will hold 31,5% of Saambou.

Counsel for Nuwe Suid-Afrikaanse Prinsipale Beleggings and the CC Exchange, Schalk Burger SC, argued last week that the deal was unenforceable because it did not comply with the new Deposit Taking Institutions Act which came into effect on February 1 this year. B|Day 3|6|91

It was also argued that 6,7-million of the 12-million votes cast by Saambou shareholders in favour of the merger deal were invalid as the representative of Main Street Nominees, who held the shares, had a proxy to vote against the deal, but without authorisation voted for it.

Mr Justice Ralph Zulman is to give judgment.

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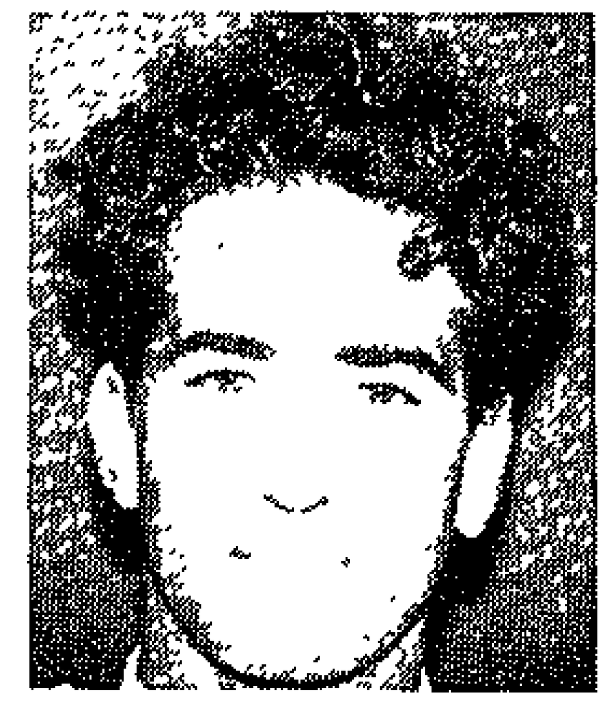
Setting Absa's house in order

(58) CT 3/6/91



Banks, Bonds & the Bourse

by ARI JACOBSON

THE Amalgamated Banks of SA (Absa) needs plenty of patching up before changing from a big building society into a competitive bank.

Banks and building societies have been channelled in different directions since changes in February to laws governing deposit taking institutions.

Building societies were largely -property-orientated setups while banks concentrated on the finer side of finance — cheque books, instalment credit and of course corporate banking.

The failure of a society to provide well-diversified banking business was highlighted when the Absa edifice shifted into place.

Two building societies (UBS and Allied), an assurer (Sage) and a smallish bank (Volkskas) joined forces against the background of squabbles among competitors.

The outcome is that Absa now has control of home loans with almost 40% of the market.

The yawning exposure for this R50bn financial giant is in the other areas of banking. It lags behind FNB and Standard in amassing cheque accounts — and in the important instalment credit arena is compares unfavourably with much smaller competitors.

The corporate profile also needs to be propelled into action — it lacks the authority that other competitors enjoy.

Internally, duplications are still being phased out with each institution set to focus on a particular service.

Going forward with things disjointed at home has its hazards.

Valuable possessions

Take the insurance arm of Absa which is to be housed in Sage. Small operations already exist in each subsidiary which must be brought together with outside components Momentum Life and Commercial Union.

"Its like a jungle in there," said a competitor.

But Absa has valuable possessions.

For one, quality management, which CE Piet Badenhorst feels will make the difference in banking terrain he predicts will get even tougher.

Secondly, a strong capital base and with easier reserve requirements (on home loans) Absa will have the support for expansion. Added to this is the dominance it has in attracting deposits, with some 30% of the market total.

And the strategy to maintain the edge in the home loan market continues. At present Absa has stakes in a formidable set of estate agents, and has just recently brought Cape-based Seeffs on board.

The game plan it seems is to tighten the grip on the home loan front before taking stronger action in traditional banking.

But competitors will retaliate.

There is uncertainty, as Badenhorst admitted, in the current Absa structure — a perfect opportunity to stall progress and snatch market share.

It seems the banking war has just begun.

Sage Holdings decides to maintain its dividend

(58)

B Day 3/6/91.

LIZ ROUSE

SAGE Holdings achieved net earnings of R29,5m for the 15 months to March compared with R26,5m in the preceding year but has decided to maintain its total dividend on an annualised basis.

Earnings a share for the 15 months amounted to 128,83c against 121,41c in the previous year, representing a decline of 15,1% on an annualised basis. Fully diluted earnings a share reflected an annualised decline of 11,6%.

In the preliminary report, the directors say it should be noted that the results for the 15 months include an element of distortion in that earnings of certain subsidiaries do not accrue evenly over the year.

Sage Financial Services (SFS), which reported earlier, issued the same warning and its earnings appear to accrue more rapidly in the early part of each calendar year.

A dividend of 55c (38c) has been declared, making 75c for the 15 months. A total of 60c was distributed in the previous year.

Sage's year-end was changed from December to March, aligning reporting with recently formed Amalgamated Banks of SA (Absa) — which contains certain interests of SFS. The 1991 results reflect the implementation of the Absa transaction.

As previously reported, the development of the group, particularly the build-up of strategic investments, has resulted in the partial funding of investments and holdings in subsidiaries with borrowings during a time of high interest rates, thereby adversely affecting results.

Shareholders' earnings have absorbed this charge, allowing the group to maintain its strategic portfolio ahead of what the directors say are "anticipated opportunities". The directors say the logic of this strategy has been clearly demonstrated in the Absa transaction. That involved the exchange of 49% of SFS's insurance holdings for an indirect minority stake in Absa.

During the review period, the group "initiated a process of restructuring its funding profile" and hopes to complete the balance sheet restructuring soon.

The directors have not elaborated on the ill-starred US investments which have had to be written off. It appears, however, that much of the "restructuring of the funding profile" is to do with this.

An abridged balance sheet shows that group total assets increased by 20% to R2,4bn at the end of March 1991.

The group's financial services division, Sage Financial Services, is reported to have met its forecast of increased profitability, with net earnings of R42,8m and earnings a share rising by 16,7% to 52,5c on an annualised basis.

Sage Property Holdings (SPH) — with property, homebuilding and construction interests — also performed in line with forecast, the directors said, and reported net income of about R13m for the 15 months compared with R7,8m in the previous year. This, the directors explained, was despite a recessionary environment and particularly difficult conditions in the housing sector. Fully diluted earnings a share increased by 4,2% on an annualised basis.

THE MONEY MARKETS by Andrew Gill

Banks squeezed as Stals goes after inflation

B Day 3/6/91

RESERVE Bank Governor Chris Stals brought out the big guns last week as he put the squeeze on the banks at a time when they suffer most — month-end.

Interest rates returned to favour as the means to kill (or maim) the inflation rate after a set of "shocking" key statistics were released late in the previous week.

Inflation's stubbornness prevailed again in April as the annual change in the CPI climbed to 14,6% from 14,1% and money supply growth clambered up to 15% from 14,4%.

The bearish CPI and M3 figures were exacerbated by Deputy Governor Jaap Meijer's comments last weekend when he ruled out any Bank rate drop until inflation had reacted appreciably to the tight curbs.

Stals's relatively *laissez faire* role of the past few months disappeared and he moved into proactive mode through various instruments at his disposal.

On Wednesday he rolled over a seven-day R500m special TB issue into a 21-day R500m special TB issue. It isn't new that he rolled over an issue but it happened at the month-end, the first such move for a long while.

Reasonably brisk swapping of dollars to take rands out of the market continued, which again was not unusual. However, this happened close to and during month-end and that had not happened for some time.

On Friday the weekly TB tender realised an unchanged low rate of 16,69% discount but bills on offer were increased by R20m to R150m, the highest since August 12 1983.

58

The extra R20m which had been taken out was not significant in itself but the message was, especially over month-end.

The three factors combined confirm that message: "Less liquidity, higher rates."

Stals has decided to take a more hands-on approach to curbing inflation if last week is anything to go by. The Bank seems to have changed its shortage "ranges" to above R2bn and possibly closer to R3bn and players do not expect any sustained moves below R2bn again.

Rates, however, have so far failed to react to the measures. The TB rate was unchanged at 16,69%, the three-month liquid BA rate held at 16,9%, and NCDs have shown little movement.

Also showing little movement were assets. Trade was thin during the week and demand for paper longer than three months all but dried up.

NSA Investments to fight on

B/Day 5/6/91

SUSAN RUSSELL

EVERY possible action would be taken to oppose the R55m transaction which gives Fedlife the right to obtain control of Saambou, NSA Investments MD Hardie Joubert said yesterday.

Joubert was reacting to the failure yesterday of an urgent court application by NSA Investments and associated company CC Exchange challenging the validity of the agreement between Fedlife and Saambou. NSA Investments and CC Exchange are both Saambou shareholders.

Both are also associated to insurance brokers Prestasi.

Mr Justice Zulman yesterday dismissed with costs their application to have the Fedlife agreement declared null and void and unenforceable.

Joubert said NSA Investments was still opposed to the transaction and the court case was only one of the steps taken to fight it.

"We are convinced the transaction is detrimental to the shareholders," he said.

"It is in the interest of the small shareholders that we continue opposing the transaction".

(58)

Prestasi chairman Jan Erasmus said he was willing to co-operate with Fedlife and Saambou management to find ways in which the best interests of small shareholders, Saambou and its personnel could be served.

NSA Investment's attorney Henry Vorster said the court had not given Fedlife carte blanche to convert their debentures into shares.

"It appears that the deal will need to be restructured and resubmitted to Saambou's shareholders for approval, should Saambou and Fedlife wish to continue with the transaction," he said.

Vorster said the judgment would first be studied before NSA Investments decided what further steps could be taken.

Joubert said Saambou and Fedlife's actions would be carefully monitored, and that he was satisfied he had assisted in guarding the minorities' interests.

Not too late to claim on exports — tax man

B/Day 5/6/91

GILLIAN HAYNE

TIME is running out for exporters wanting to claim tax deductions on money spent marketing exports, but it is not too late for some benefits to be gained, Ernst & Young tax partner Raoul Kaplan says.

Claims under section 11 bis of the Income Tax Act will be discontinued on March 31 1992, although expenditure unclaimed at that date — because of turnover limitations — can be carried forward and claimed aginst export turnover in the year to March 31 1993.

The allowance, which is to be discontinued partly because of its use in tax avoidance, has been changed from time to time. The most recent change limited an exporter's claim to 20% of export turnover. The restriction applied to expenditure incurred after March 9 1989, unless the exporter was contractually bound to incur the expenditure at that date.

However, there are ways to increase the deduction while section 11 bis is around, Kaplan says.

The export marketing allowance is available to exporters of goods and to the export service industry. This means that where exporters conduct their export business through an agent, the agent and the exporter qualify for the section 11 bis deduction.

"The agent can be within the same group but in order to ensure the Receiver identifies it as an arm's length transaction, the agent should also carry out exports for other exporters outside the group," Kaplan warns.

Expenditure on advertising in an export country is also deductible in terms of section 11 bis.

Kaplan says: "It is therefore possible to claim a double deduction in respect of expenditure on sponsoring sports or cultural events in an export country and in so doing finance the sponsorship through the equivalent tax saving, whilst receiving very good exposure."

Once section 11 bis has been discontinued exporters will be able to get help through "primary export market research assistance".

23 000 out of work over three months

B/Day 5/6/91

GERALD REILLY

PRETORIA — About 23 000 employees lost their jobs in SA's mining, quarrying, manufacturing and construction industries between last December and the end of March this year, Central Statistical Service's (CSS's) latest employment report has found.

At the end of the four months 2 540 166 people were employed in these sectors, the report said.

In the mining and quarrying industry, employment levels dropped by 9 103 to 650 948.

Job losses in the manufacturing industry totalled 8 300 between December and March with 441 118 people keeping their jobs by the end of that period.

During the same period 7 400 construction workers lost their jobs reducing the total number of employees in that sector to 396 300.

Employment levels in the electricity industry remained static at 48 000.

Economists have warned that layoffs in these major sectors are likely to continue until the first half of 1992.

Sequel to the Absa merger

(58)

De Villiers ousted by Badenhorst

B/Day 5/6/91.

Business Day Reporter

ABSA CE Piet Badenhorst suspended Allied Group CE Kevin de Villiers on full pay yesterday morning. News of the suspension was announced to Allied's senior staff late yesterday afternoon.

Bob Aldworth, a former CE of what was then Barclays, has temporarily replaced De Villiers at Allied though he has not been formally named De Villiers' successor. De Villiers was told of his suspension in a letter from Badenhorst and left his office immediately as Aldworth moved in.

● DE VILLIERS

Yesterday De Villiers would not disclose the reasons for his suspension. Absa chairman Herc Hefer would not comment on the matter either, but indicated that negotiations were taking place between De Villiers' legal representatives and Absa's.

However, company insiders said Badenhorst's letter specified De Villiers' refusal to cancel an annual convention for Allied's top performers, his general performance since his last appraisal by the board early in 1990 and his handling of Allied's advertising and sponsorships. The letter mentioned De Villiers' part in the Allied Bank yacht sponsorship, which won significant publicity for Allied as well as additional foreign business. It also specified Allied's local television sponsorship of the Australian Open tennis championship.

Badenhorst and De Villiers clashed bitterly when De Villiers backed First National Bank against Badenhorst's United during the contested bid for Allied. When United's bid prevailed, De Villiers proffered his resignation but was asked by Badenhorst to stay on as Allied Group MD. Nonetheless, De Villiers was alone among the other chief executives in not being appointed to the Absa board, and banking analysts speculated at the time that he would soon be ousted from the Absa group.

Since the merger, De Villiers has been progressively stripped of his executive functions.

De Villiers' opposition to United's bid for Allied contributed to United paying R180m more than its initial offer for Allied. That gave Allied's shareholders a better deal than envisaged in the opening offer by United. Analysts believe this led to bad blood between him and Badenhorst.

Immediately after the Absa merger, Badenhorst gave Aldworth the task of overseeing an examination of De Villiers' affairs including his expense account, business trips and any possible insurance irregularity following the sinking of John Martin's yacht, Allied Bank. Aldworth del-

☐ To Page 2

De Villiers

B/Day 5/6/91.

(58)

☐ From Page 1

egated the task to Oscar "Ossie" Pienaar who, in turn, enlisted the help of the Allied Group's internal audit department.

The investigation was no secret from Allied's staff and the internal audit team's thorough probe failed to turn up any irregularities.

Aldworth, who is seriously ill at present, had a distinguished banking career before being appointed this year as Absa's chief counsellor. He was Barclays MD until he resigned following Press disclosure of his affair with Sandra van der Merwe. After a spell selling real estate at the coast, he was appointed Corbank chairman. When Corbank faltered last year it was initially taken over by the now liquidated Cape Investment Bank.

Court challenge to Fedlife deal fails

(58)

By Cathy Stagg

Star 5/6/91.

An application by two Saambou shareholders to challenge the validity of the merger deal which gave Fedlife a 31,5 percent stake in the building society was dismissed in the Rand Supreme Court yesterday.

Suid Afrikaanse Principale Beleggings and The CC Exchange launched an application to have an agreement between Fedlife and Saambou on January 31 declared void.

The agreement would increase Fedlife's stake in Saambou from 2,6 to 31,5 percent, the court heard.

Yesterday Mr Justice R Zulman ruled that it was unwarranted to strike down the entire agreement as void.

Part of the deal involved the sale of Planet Finance Company by Fedlife to Saambou for R55 million. Saambou issued convertible debentures worth the same amount. The deal was concluded one day before the new Deposit Taking Institutions Act came into effect. It was argued that the merger was unenforceable in terms of the new Act.

The judge said the debentures had not been converted into shares.

Mr Justice Zulman said the wording of the Act did not make it illegal to enter into an agreement for the acquisition of shares, nor did it require approval for an agreement to acquire shares.

Bid to block Saambou deal fails

SUSAN RUSSELL

TWO Saambou shareholders, NSA Investments and CC Exchange, have lost a court battle challenging the validity of the agreement giving Fedlife the option of obtaining a controlling 31,5 % stake in the company. Bday 5/6/91

Mr Justice Zulman dismissed their application with costs in the Rand Supreme Court yesterday.

The applicants had asked for a court order declaring the agreement void and unenforceable because it contravened provisions of the Deposit Taking Institutions Act which came into effect on February 1.

The applicants also applied for an order declaring that 6,7-million of the shares voted by Saambou shareholders on May 15 in favour of three resolutions giving effect to the agreement were invalidly cast.

In terms of the agreement Fedlife sold Planet Finance Ltd to Saambou for R55m. Instead of a cash payment Saambou issued debentures to Fedlife which the company may convert into shares. Fedlife has until March 30 1994 to exercise its right to convert the debentures. (58)

Schalk Burger SC, for the applicants, argued last week that Fedlife's four simultaneous applications to the Registrar of Deposit Taking Institutions — for permission to increase its 2,6% stake in Saambou to more than 30% — contravened the provisions of the new Act. It was also argued that the time periods specified in the Act before increasing a shareholding in a deposit-taking institution could be shortened on application, but not waived.

Burger submitted the Finance Minister had exceeded his powers by waiving the

☐ To Page 2

Saambou Bday 5/6/91.

(58) ☐ From Page 1

time period in this instance.

Mr Justice Zulman accepted Fedlife's contention that it had not obtained permission to acquire a bigger stake in Saambou, but the "right to acquire the right to acquire" an increased shareholding if it elected to convert the debentures.

"The Act, as it could have done, does not render it illegal per se to enter into an agreement for the acquisition of shares," the judge said.

If Fedlife did not elect to convert the debentures then the question of obtaining or acquiring any Saambou shares would not arise.

"Fedlife has in fact not 'acquired' any shares," the judge said. "It has in truth acquired debentures which, if it elected to convert them, would lead to the acquisiiton of shares."

Until this took place, he said, there was no question of any acquisition.

On the face of it, it was also lawful to enter into an agreement and obtain permission for the acquisition afterwards, but before the shares were acquired.

This was exactly what had taken place, Mr Justice Zulman said.

He also found that 6,7-million Saambou shares held by Main Street Nominees on behalf of a principal were validly voted in favour of the Fedlife agreement on May 15.

A proxy voting them against the agreement was withdrawn at the meeting and they were voted in favour instead.

The applicants claimed that a Main Street Nominees representative at the meeting did not have the necessary authority to withdraw the earlier proxy and vote in favour instead.

Mr Justice Zulman said he saw no difference in principle between what had occurred and a situation where a shareholder did not attend a meeting himself but, prior to the voting, sent a messenger or notification that he wished to change his proxy and vote differently.

● See Page 4

Standard set to open bank in Botswana

B/Day 5/6/91.

ROBERT GENTLE

STANDARD Bank of SA is about to open a bank in Botswana and is believed to be looking at a joint venture with a local bank in Madagascar.

The moves are part of Standard's policy of forging closer links with Africa to capitalise on business and trade opportunities flowing out of SA's improving standing in the continent.

Standard's African Banking Group CE Manfred Schutte said Standard would definitely be setting up an independent operation in Botswana following the recent decision by that country's Central Bank to grant it a banking licence. 58

Standard was studying conditions laid down by Botswana. One of these was a requirement that Standard capitalise the Botswana operation with at least 10m pula (R15m), about twice the usual minimum.

Schutte was reluctant to comment on talk of the move into Madagascar.

Standard has a wholly owned subsidiary in Namibia, another 55%-owned operation in Bophuthatswana and a 49% stake in Union Bank of Swaziland.

NSA unrelenting

Diagonal Street

(SS)

ANN CROTTY

Despite two failed court attempts to block the Planet transaction between Saambou and Fedsure, NSA Investments is getting ready for a third court appearance.

Whatever issues will be used to block the deal, the major points of grievance appear to be that the terms of the Planet deal are more favourable to Fedsure than to Saambou and that this deal would not have been passed by shareholders if NSA had been allowed to vote its 12 million shares.

Star 6/6/91

MD of NSA Hardie Joubert has nothing against Fedsure or Planet, but wants the chance to throw out the deal and negotiate again from scratch.

Criticism is based on the view that Saambou is paying too much. It will be paying R55 million for Planet, which has share capital of only R5 million.

NSA says Planet has not shown a profit for five years, so that even in terms of P/E, Saambou has overpaid.

Fedsure's response is that in addition to the R5 million share capital, Planet has a loan book of R50 million, which generates attractive profits. It seems that for tax reasons this profitability is not apparent from Planet's bottom line.

But Fedsure chief executive Arnold Bassarabie says Saambou has picked up Planet on a P/E of about four.

Analysts find it difficult to accept the stated reasons for the court actions and continue to suspect some sort of hidden agenda.

They speculate about a possible unidentified party manipulating the situation, with an asset-strip of an independent Saambou the long-term plan.

Assuming the net asset valuation of 222c a share (as at the end-February balance sheet asset) is accurate, there is not much scope for an asset stripper because a renewed battle is likely to push the share to at least 180c.

Mr Joubert says NSA would consider selling its shares, but would not like to climb out before the final court decision.

It would want to cover its costs of around 160c a share. There is also the matter of the right of first refusal that Investec has for the next 17 months.

The 160c includes the interest cost associated with funding the share acquisition. NSA bought R18 million worth of Saambou shares last year, of which it was able to provide finance for R11 million. Investec provided the remaining R7 million in exchange for the voting rights attached to all 12 million of the shares and the right of first refusal. (Both conditions were to hold for 18 months after repayment of the R7 million).

An application has been lodged with the Appellate Division of the Supreme Court against the judgment in the May 15 court case which enabled Investec to vote NSA's Saambou shares.

Mr Joubert talks about the possibility of challenging Fedsure's ability to lift its stake in Saambou (on conversion of the debentures) to over 30 percent. He also questions the ability of the Registrar or the new DTI Act to grant the necessary permission.

New Allied drama as share deal probed

Star 6/6/91.

By Michael Chester (58)

New drama erupted in the Allied banking and building society hierarchy today when it was revealed the Attorney-General of the Witwatersrand had launched a probe into a huge allocation of shares to a former chairman.

The Attorney-General, Klaus von Lieres, confirmed complaints had been lodged about possible contraventions of the Companies Act in the allocation of 500 000 Allied shares to Norman Alborough when he was still chairman of the group six months ago.

He said there would be a full investigation by the SAP Commercial Crime Unit to ascertain whether or not there was any infringement of the Companies Act or any other offence committed.

Allocation . . . ex-chairman Norman Alborough.

There is still controversy over the suspension of Allied managing director Kevin de Villiers on Tuesday.

The suspension was ordered by Piet Badenhorst, chief executive of the new Amalgamated Bank of South Africa empire created by the merger of Allied with the United group along with Volkskas Bank and Sage Financial Services.

Legal teams representing Mr de Villiers (43) and Absa were neogtiating yesterday.

Insiders said the talks resulted in the withdrawal of the suspension and the formal resignation of Mr de Villiers.

The Norman Alborough shares deal occurred at the peak of the tense United battle to take over control of Allied in the masterplan to create the new Absa giant.

Allied deputy chairman Joe Pamensky came out in defence of the allocation and argued Mr Alborough was entitled to them under an executive share incentive scheme.

Mr Alborough said today: "I'm not in a position to make any comment at the moment."

State funds face new discipline

58

BDay 6/6/91

LESLEY LAMBERT

CAPE TOWN — State pension funds may soon comply with the same financial disciplines as private funds, if amendments to the Financial Institutions Act are passed.

Proposed amendments in the Financial Institutions Second Amendment Bill, tabled in Parliament yesterday, will enable state funds to appoint boards of trustees and to apply for registration in terms of the Pension Funds Act of 1956.

The State President will be empowered to amend or repeal the Pension Funds Act in order to accommodate the state funds which are currently controlled by statute.

The board of trustees will apply for registration. Funds which are registered will become corporate bodies, privately managed and subject to the same financial disciplines as other funds.

They will have to undergo regular actuarial evaluations and private audits and will have to disclose their financial statements to the Registrar of Financial Institutions.

Financially unsound state funds will be required to submit plans to the Registrar of Financial Institutions containing measures aimed at strengthening their financial position.

The Registrar will approve only the applications of funds whose plans he believes will be feasible in the longer term.

The state's obligations to pension funds which are registered will be transferred to the funds, along with all members and financial liabilities, according to a memorandum attached to the Bill.

Membership will remain intact, although provision is being made for the State President to approve changes.

Provision will be made, where necessary, for the funds to take transfer of their assets, the memorandum states.

If the amendments are approved, they will help to improve the financial position of state funds, many of which have been operating at an actuarial loss.

A second amendment in the Bill recommends greater protection of insurance policyholders' funds in the case of insolvency.

It recommends an amendment to the Insurance Act of 1943 to increase the amount of life policy funds which creditors cannot claim from R10 000 to R30 000.

Star 7/6/91

No charge, says Perm

By David Canning (58)

DURBAN — The Perm has cancelled plans to charge its clients R20 for each salary cheque which they deposit.

Perm regional marketing manager Jock Elliott said the move had been intended to encourage employers to make one globular salary deposit on behalf of its staff, the society then crediting each employee with the amount due.

It is understood the move arose from concern about the volume of accounts in which salary cheques are deposited and then immediately emptied.

Unlike other societies, the Perm does not demand maintenance of minimum balances in its accounts.

The initiation of such charges some years ago persuaded clients to close their accounts at other institutions and at the time the Perm picked up some of that business.

Fedlife acts to resolve Saambou uncertainty

Star 7/6/91

By Ann Crotty (58)

In a move designed to quash the uncertainty surrounding the Fedlife/Saambou deal, Fedlife has announced that it has converted all of its 39 million Saambou convertible debentures and now has a 34 percent stake in Saambou.

It is unclear at this stage how effective the move will be in putting an end to the legal action by NSA Investments.

The legal action, which was aimed at frustrating the Fedlife/Saambou tie-up, has so far resulted in two defeats in court for NSA Investments. NSA MD Hardie Joubert, who says he is shocked and dismayed at the conversion, is consulting his legal team on the matter.

The convertible debentures were issued to Fedlife in mid-May at a special meeting of Saambou shareholders as payment for Planet Finance.

Conversion of the CDs on a one-for-one basis, which could be done up to March '94 at the discretion of Fedlife, will give Fedlife effective control over Saambou.

Mr Joubert says that they may go back to Mr Justice Zulman (who gave this week's judgment on what was the second court case) and ask him to make an explanatory judgment on the basis of this latest development.

(In his judgment Mr Justice Zulman said he could not consider the question of the issuing of shares because only debentures were involved.)

Mr Joubert says that in NSA's opinion this conversion is in contravention of section 37 of the Deposit-Taking Institutions Act.

Fedlife says the issue of the 39 million shares has been approved by the Minister of Finance and the Registrar of Deposit-Taking Institutions.

But Mr Joubert believes that neither the Registrar nor the Minister of Finance has the authority to grant approval for this immediate conversion as it results in Fedlife immediately lifting its stake in Saambou from around four percent to over 30 percent.

As he sees it, the conversion can be done only in stages with the Registrar's approval needed when the shareholding first goes over 10 percent, then over 17,5 percent, then over 25 percent and then over 30 percent. A period of 12 months must elapse between each stage. (Moving from 30 percent to 49 percent requires the Minister's approval.)

However the Fedlife team is adamant that the DTI Act gives the Registrar the power to reduce the 12-month holding period to whatever period he sees fit.

Resolving this issue would seem to be a straightforward legal matter.

Despite NSA charges to the contrary, Fedlife states that if the deal had been effective for full financial '91 it would have added 16c a share to the enlarged share base. The conversion, which is at a price of 140c a share, will reduce Saambou's net asset value to 196c a share compared with the end-February figure of 220c.

The decision to convert so quickly does seem to turn on its head the earlier statement that a long conversion period was needed to give both parties the opportunity to get to know each other's assets and cultures and decide if they did want to get into bed together.

Fedlife now states that at no stage did it indicate that it would wait the full three years before converting.

Whilst it acknowledges that this step was taken under pressure and is aimed at eliminating a lot of disruptive uncertainty, Fedlife management says that on the basis of the due diligence done earlier this year it is happy with Saambou's financial situation.

We would welcome shares probe, says Allied

Star 7/6/91

By Michael Chester and Finance Staff 58

The Allied said yesterday it would welcome "a full and immediate investigation" into the suggestion that it was involved in a cover-up of the share allocation to chairman Norman Alborough.

The Allied and its controlling company, Amalgamated Bank of SA (Absa), ran into new drama when it was revealed that the Attorney-General of the Witwatersrand, Klaus von Lieres, had ordered a probe into a huge allocation of shares to Mr Alborough.

A joint statement released by Absa and the Allied said incorrect perceptions may have arisen from a newspaper report that suggested Absa had cautioned a group employee about providing information to the Attorney-General.

Mr von Lieres said he had received complaints about the possibility of contraventions of the Companies Act in the allocation of 500 000 Allied shares to Mr Alborough about six months ago. He refused to give the origin of the complaints.

The SAP commercial crime unit, he said, would examine all aspects of the transaction to ascertain whether or not it involved any legal infringements.

Mr von Lieres said he had held consultations yesterday with Absa chief executive Piet Badenhorst and new Allied managing director Bob Aldworth in connection with the share issue and he was assured of their full co-operation.

Mr Alborough said yesterday: "I'm not in a position to make any comment at the moment but I may comment on the whole matter later."

The new drama emerged hard on the heels of controversy over the shock suspension by Absa of former Allied MD Kevin de Villiers on Tuesday.

Chances of an intense legal wrangle appeared to have been averted by discussions between legal teams representing Mr de Villiers and Absa.

A statement by Absa yesterday said: "It was mutually agreed that Mr de Villiers will be leaving the Allied on terms and conditions acceptable to both parties."

Yet to be disclosed is the size of the golden handshake — which insiders said was likely to be substantial — offered to Mr de Villiers as part of the settlement package.

AMAPROP FM 7/6/91 58

DEFENSIVE PORTFOLIO

Activities: *Manages commercial properties, shopping centres and hotels and develops residential and industrial townships.*
Control: *Anglo American 66%.*
Chairman: *G G L Leissner.*
Capital structure: *45m ords. Market capitalisation: R369m.*
Share market: *Price: 820c Yields: 5,7% on dividend; 8,9% on earnings; p:e ratio, 11,2, cover, 1,6. 12-month high, 860c; low, 600c. Trading volume last quarter, 92 000 shares.*

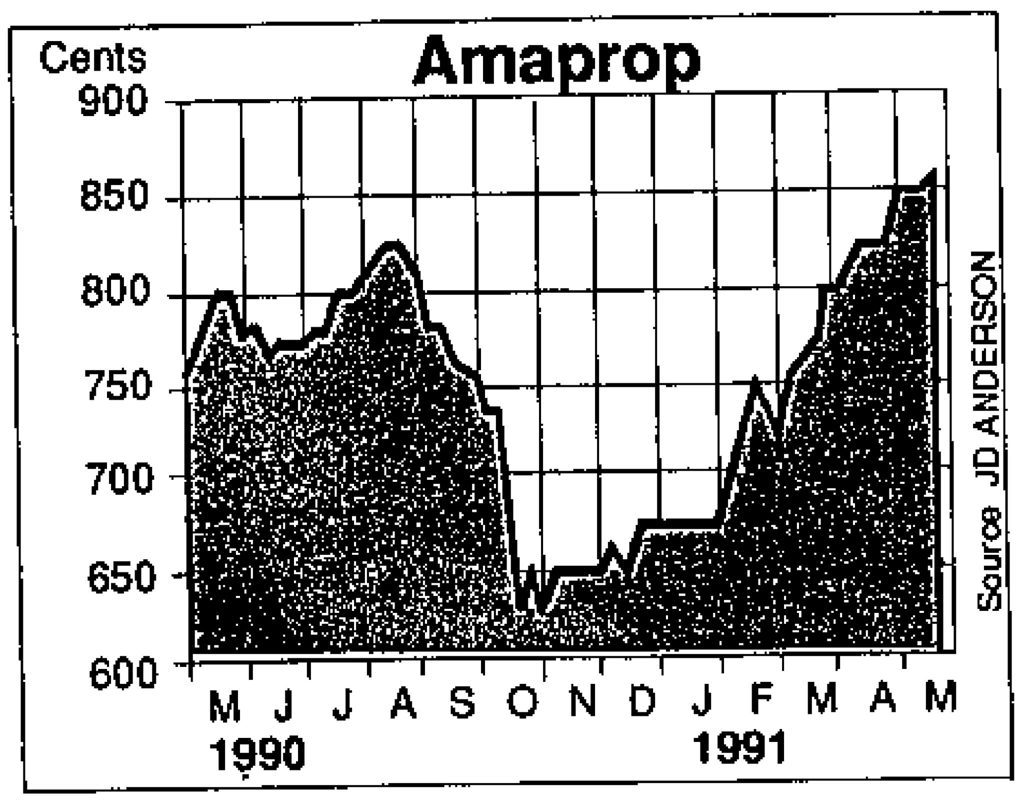
Year to Mar 31	'88	'89	'90	'91
ST debt (Rm)	4,4	9,1	2,7	15,5
LT debt (Rm)	228,0	223,4	218,1	211,4
Debt:equity ratio .	0,49	0,46	0,39	0,33
Shareholders' interest	0,62	0,60	0,63	0,67
Int & leasing cover	2,2	2,5	2,6	2,9
Return on cap (%)	7,1	8,1	8,6	7,1
Turnover (Rm)	125	162	209	200
Pre-int profit (Rm) ..	53,8	64,9	71,3	72,1
Pre-int margin (%) ..	42,8	40,1	34,1	34,9
Earnings (c)	46,3	54,8	67,4	73,0
Dividends (c)	30	35	42	47
Net worth (c)	906	918	997	1 301

The breadth and high quality of Anglo American Property (Amaprop)'s portfolio is likely to ensure the group enjoys steady if unspectacular growth this year.

Amaprop chairman Gerald Leissner believes earnings will grow by up to 15% in the year to March 1992 if the performance of the Carlton and estates development divisions comes up to expectations. He says poor contributions from these divisions would result in group earnings climbing only 10%-11%.

Lacklustre results from these divisions helped to curb the improvement in operating profit last year to only a 1,3% increase, to R72m, while turnover dipped by 4,3%, to R200m. The 8,3% rise in EPS was achieved by a drop in finance charges, from R27,5m to R24,9m. Shareholders also benefited from a R3,9m (R10,4m) surplus on the sale of property that was treated as an extraordinary item and not included in EPS. Dividends thus improved by 12% to 47c a share.

Losses at the 60%-owned Carlton Hotel cost Amaprop R2,1m (compared with the previous year's shortfall of R609 000). Though room rates increased significantly, a drop in occupancy pegged turnover at close to the 1990 level at R36,7m.



Amaprop's Leissner .. *earnings could grow by up to 15%*

The prestigious hotel, which underwent an extensive facelift last year, continues to operate with only two-thirds of its 600 rooms open, and the hoped-for deluge of foreign tourists remains as elusive as ever. Leissner is confident the Carlton can, in better economic times, make a good contribution to group profit and further enhancements to the hotel are planned for this year. Little, if any, profit contribution can be expected in financial 1992.

Though turnover at Amaprop's estates developments fell 35% to just under R40m, a substantial reduction in tax enabled the division's earnings contribution to nearly double to R1,7m. To limit its exposure to this high-risk business, Amaprop has chosen not to develop any new schemes in the short term. It has also limited investments in township land and debtors to R55m. Leissner says the selling of existing stands, mainly at Midrand, and the collection of outstanding debtors is expected to release substantial profits this year. It will also enable management to concentrate on bringing the Silver Lakes development, near Pretoria, to the market.

The mainstay of the group is its long-term property portfolio. Contributions from this division improved by nearly 11%, to R33,3m, on turnover up 13%, at R125,9m. Office accommodation accounts for two-thirds of the portfolio's lettable space, with shopping centres making up the rest.

Nearly all Amaprop's shopping space is let and, though the slowing economy is putting pressure on rents, increases this year are likely to be in the region of 10%-12%. "Good shops can always be let," says Leissner. However, the glut of business accommodation has resulted in 7%-8% vacancies in the group's office blocks. Growth in rental income from these properties is not expected to exceed 10%.

About a fifth of Amaprop's office accommodation leases come up for renewal each year (though no major leases expire this year) Leissner says he will be happy if the group can maintain its current level of occupancy in financial 1992.

Though Amaprop has made some changes to its property portfolio, major additions are unlikely. The group has no cash and management is keen to reduce gearing. In the past four years, gearing has been steadily falling from 49% to 33%. Most of the long-term debt is in the form of debentures, yielding interest well below bank rates. A revaluation of properties, done every three years, helped ease gearing in financial 1991 by adding R117m to shareholders' funds.

Though it is unable to invest directly in major new properties, Amaprop broadened its investment spread by increasing its holdings in listed property trusts. It took a 50% stake in Compass Property Holdings (formerly Retprop) and a 2,8% interest in Main Street Property Fund (Mainpro). The holding in Apex Property Fund was reduced by 3% to 13%.

While Amaprop has much to offer investors looking for defensive rather than high-yield stocks, the share has appreciated significantly in the last few months. It is beginning to look expensive at around 820c. Assuming the group achieves its top forecast of 15% earnings growth, this would put the share on a forward p:e of about 9,8, well above the sector's current average.

Simon Cashmore

FIRST NATIONAL BANK

WRONG NUMBER

(58)

FM 7/6/91

FNB has given bondholders headaches by extending account numbers from 11 to 13 digits. Debit orders to the new account numbers were rejected by the bank's electronic clearing systems as invalid. Clients have now been told to use their old numbers and bank staff are transferring the funds manually.

The new numbers are part of the development of the Hogan computer system, which has caused problems during its implementation over the past five years.

The trouble is that the Automated Clearing Bureau (ACB), which co-ordinates payments between the banks, cannot cope with 13-digit numbers. ACB is owned by the banks and operates on agreed international standards (a maximum of 11 digits).

Hogan puts the customer account record at the heart of the system, giving access to a full customer profile at the touch of a few buttons.

This enables the bank to identify clients' needs and gives it a marketing edge. Any increase in ACB's account number field to accommodate FNB would have serious implications for other users, which include large insurers and other banks. Software, perhaps even hardware, would have to be changed; costs could be high.

Why didn't FNB anticipate these difficulties? Senior manager Brian Gilfillan says FNB asked ACB to amend its account number field. ACB couldn't, and another method will be introduced this weekend. This will allow banks and insurance companies to truncate FNB's numbers; ACB will then expand them in its own system. ■

BANKING FM 7/6/91

DEPOSIT WITH CARE (58)

The experience of Cape Investment Bank's major depositor, SA Rail Commuter Corp, demonstrated that placing large deposits with one institution can be a risky business. The other side of the coin is that a bank that relies on one large depositor who encounters financial difficulties and withdraws its deposit can face liquidity problems.

Fortunately, says African Bank MD Jack Theron, Transkei is no longer its single largest depositor. But he won't say how much Transkei's deposits, reported in 1989 as R38m of total liabilities (including deposits, savings, other accounts and internal reserves) of R158m, now are.

Theron says Transkei's financial problems will have no effect on the bank. This is confirmed by Transkei leader Major General Bantu Holomisa. Theron adds that all Transkei's deposits are long-term and that the bank has high liquidity.

Transkei is now technically bankrupt and couldn't pay its R55m May salary bill without help from SA. It has already borrowed R20m from its pension fund to keep afloat. Negotiations are under way between the Transkei and SA governments to see whether the monthly transfer of R137,9m to Transkei by SA can be increased.

Under the new Deposit-Taking Institutions (DTI) Act, a bank has to report deposits from any one client which exceed 10% of total deposits.

Registrar Hennie van Greuning says that not only should banks be wary about becoming too reliant on one depositor, investors should investigate an institution where they intend placing deposits. If a bank wants a deposit, it will disclose information which is not publicly available.

But it is almost impossible for the man in

FM 7/6/91 (58)

the street to get such information. Nor is it the responsibility of the DTI office to advise investors on any particular institution. ■

BANKS FM 7/6/91 (58)

CUTTING THEIR CLOTH

Maiden figures for the newly formed Amalgamated Banks of SA (Absa) released last week show operating costs amounted to R1,3bn or 76% of operating income. Meaningful comparison to previous figures is not possible, but year-end figures for other banking groups show a similar trend.

Standard Bank Investment Corp (SBIC)'s operating expenses amounted to R2bn — also 76% of total income. Operating expenses in 1990 rose 24,7%. First National Bank (FNB)'s operating expenses of R1,5bn are 75% of operating income and just 7,5% up. Nedcor's operating costs of R1,3bn are 66% of total income and 22,8% up on 1989. Bankorp did not disclose operating expenses.

Absa can cut costs dramatically by proper rationalisation of three bank groups into one. But others are also hoping to cut costs, mostly by rationalising technology and staff and centralising service divisions.

United Bank MD Mike de Blanche says that, when rationalisation at Absa is complete, about R85m a year will be saved in capital and operating costs, though he can't say how long it will take. Most of the savings will be in computer systems and staff.

De Blanche reckons the first phase — bringing Allied and United's computer systems into one computer centre — will be completed this month. However, the two will still run off different systems until the second stage, when these will also merge.

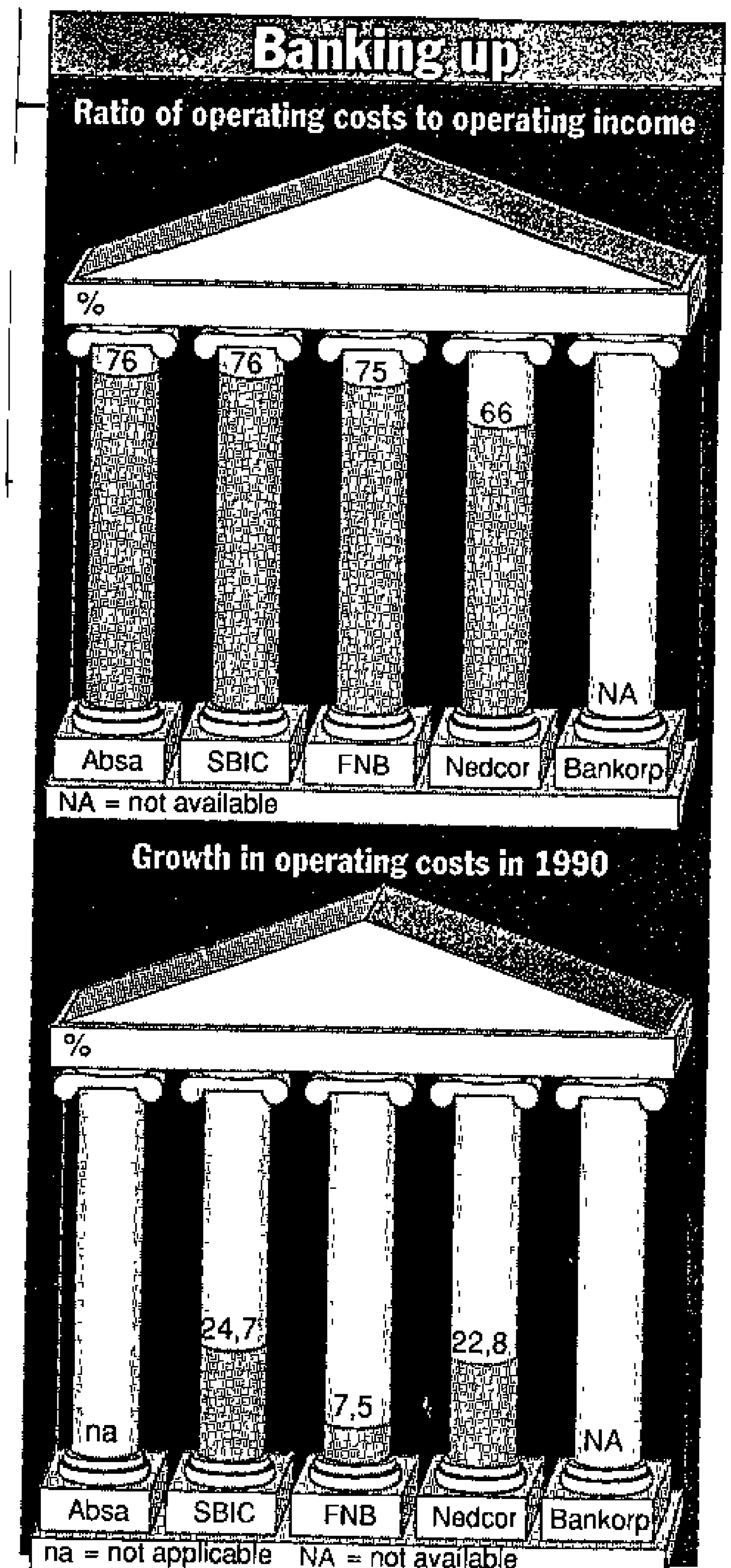
Both Allied and United run off IBM mainframes using the IBM database system, IMS. Therefore this will be simpler than merging the Volkskas system: that is run on an IBM mainframe but uses IBM CICS software and IDMS — non-IBM compatible, so will have to be converted.

De Blanche says computer centres — where mainframes are housed — will be reduced from six to two by year-end.

Nedcor, which took over the assets and liabilities of the second largest building society, the Perm, in 1989, has the benefit of experience. Executive director Leon Porter points out that rationalisation strategies are the simple part. "The work comes in successful implementation." He says it is necessary not only to have the potential to rationalise but to have the skills to manage the process, especially people and different cultures.

The process started only recently at Nedcor, mainly owing to "cultural differences."

Now the group has taken a major step towards curtailing costs by placing Ned-



FM 7/6/91 (58)

bank, the Perm and Nedfin in one banking division. Nedcor subsidiaries UAL, Finansbank and Syfrets, broadly defined as financial services, will still operate independently.

But bringing technology under one banking roof is still a problem, as Nedbank and the Perm operate on different configurations. However, Porter says computer rationalisation will begin with an integrated network and end in the mainframe issue.

Formation of the new banking division will allow rationalisation of support services such as personnel, treasury and administration. The more volume handled in one place, the less costly it becomes.

Porter reckons once savings have been achieved in these areas, the next step will be to rationalise branch networks. But this doesn't mean dropping brand names. "We could use the same branch to sell a number of different branded products, for example."

Rationalisation at FNB started about three years ago. The pay-off became evident when costs rose 15,6% in 1989 and 7,5% in 1990.

A major contribution came from the completion in 1989 of a changeover of the mainframe computer from ICL to IBM and a reduction of computer centres from seven to two as well as a rationalised network. But the remarkably small increase in 1990 probably won't be sustainable. It was possible because of savings achieved by reducing staff duplicated when the Hogan computer system was developed in tandem with the old system. p

FM 7/6/91 (58)

Senior GM Jimmy McKenzie says making the industrial bank a division rather than a subsidiary also brought significant cost savings as service functions were centralised and duplications removed.

SBIC believes its cost escalation will abate within 18 months. Senior GM Manfred Schutte sees the 24,6% increase in operating expenses as temporary, while it reconfigures branches and upgrades computer systems. Branches' operational side will move to a centralised processing area and a branch will become purely a customer service point.

Bankorp has already undergone massive rationalistion.

But unless there are particular circumstances, as at FNB in 1990, it is most unlikely that banks will be able to keep rises in operating costs below the inflation rate. ■

SAAMBOU FM 7/6/91

CASE DISMISSED (58)

Opposition of certain minorities to the Saambou acquisition of Planet Finance Corp (Planet) — the deal that gives Fedlife effective control of Saambou — is making no

FM 7/6/91 (58)

headway. Supreme Court action, brought by these minorities in an attempt to upset the transaction (*FM* May 24), has been dismissed with costs.

Saambou chairman Hendrik Sloet comments that the dismissal of all sections of the application with costs confirms that any suspicions that Saambou directors acted irregularly have been removed. He adds that they have "all along acted in their own belief of what is right for the organisation and have acted both in the letter and spirit of the law."

Fedlife MD Arnold Basserabie says simply that the transaction can now proceed as planned. As he had not seen the judgment, he could not elaborate.

However, the concerned minorities are not giving up. Reacting after the judgment, NSAP Investments MD Hardie Joubert said he intends to pursue the fight.

NSAP is one of the two companies that sought and received finance from Investec Bank to buy a total of 11,74m Saambou shares earlier this year. At the recent Saambou general meeting, Investec retained the voting rights on these shares but voted for the Saambou/Planet transaction against the wishes of NSAP. This followed court action brought by NSAP which was also dismissed with costs. Joubert says: "We are convinced the transaction is detrimental to the shareholders. It is in the interests of the small shareholders that we continue opposing it." However, Basserabie points out that, at the shareholders' meeting, many more small shareholders voted in favour of the resolution than against it.

A spokesman for Hofmeyer, Van der Merwe, attorneys representing NSAP, says the legal battle is to continue. Leave to appeal against the judgment, which found against NSAP in the earlier case that sought to restore to NSAP the voting rights held by Investec, has already been lodged in Bloemfontein.

Shares that Investec voted were pivotal to the outcome of the Saambou general meeting. Should the original court finding be upset, it could effectively render the meeting ultra vires.

The spokesman also said an appeal against Tuesday's judgment should not be discounted. And he contends that this judgment has not given Fedlife carte blanche to convert its debentures into shares.

Unless the parties decide to negotiate, it seems the issue may drag on for some time yet.

Gerald Hirshon

TIME HOLDINGS (58) FM 7/6/91

HOUSING TRAP

Time Holdings' decision to diversify has in recent years been vindicated. However, good performances from the property, financial services and mining and industrial operations last year were not enough to counter the losses at the company's long-established housing business.

Operating income plunged 57% to R4,6m, despite a 16% climb in turnover. Though Time enjoyed a handsome tax reversal of R1,6m, a second preference share issue in two years, which involved the issue of 9,9m convertible redeemable prefs at R1 each, meant that earnings attributable to ordinary shareholders fell 70%. With EPS cut from

(58) FM 7/6/91

Activities: *Property development and management, mining and industrial project management and life insurance.*
Control: *Directors 55%.*
Chairman and MD: *C T Hibbert.*
Capital structure: *35,7m ords; 5m conv red 6% prefs; and 9,9m conv red 14% prefs. Market capitalisation: R25m.*
Share market: *Price: 70c. Yields: 7,1% on dividend; 10,4% on earnings; p:e ratio, 9,6; cover, 1,5. 12-month high, 80c; low, 40c. Trading volume last quarter, 552 000 shares.*

Year to Dec 31	**'87**	**'88**	**'89**	**'90**
ST debt (Rm)	0,5	5,6	13,2	15,8
LT debt (Rm)	2,6	1,9	1,8	1,9
Debt:equity ratio	n/a	0,42	0,48	0,45
Shareholders' interest	0,19	0,30	0,34	0,34
Int & leasing cover	22,9	14,0	4,1	2,3
Return on cap (%)	12,7	20,3	13,5	4,9
Turnover (Rm)	105,9	182,6	231,3	265,1
Pre-int profit (Rm)	6,4	12,3	10,7	4,6
Pre-int margin (%)	6,1	6,7	4,6	1,6
Earnings (c)	14	26	25	7,3
Dividends (c)	6*	10	10	5
Net worth (c)	32,6	49,3	45,9	33,9

* Annualised.

25c to 7,3c, the dividend was halved to 5c per share.

As with many other housing companies, the bleeding was caused by the collapse of the low-cost housing market. In the year to December 1990, Time's housing operations lost R4,8m and a further R5,3m was written off as major branches in the PWV, Klerksdorp and Welkom were closed.

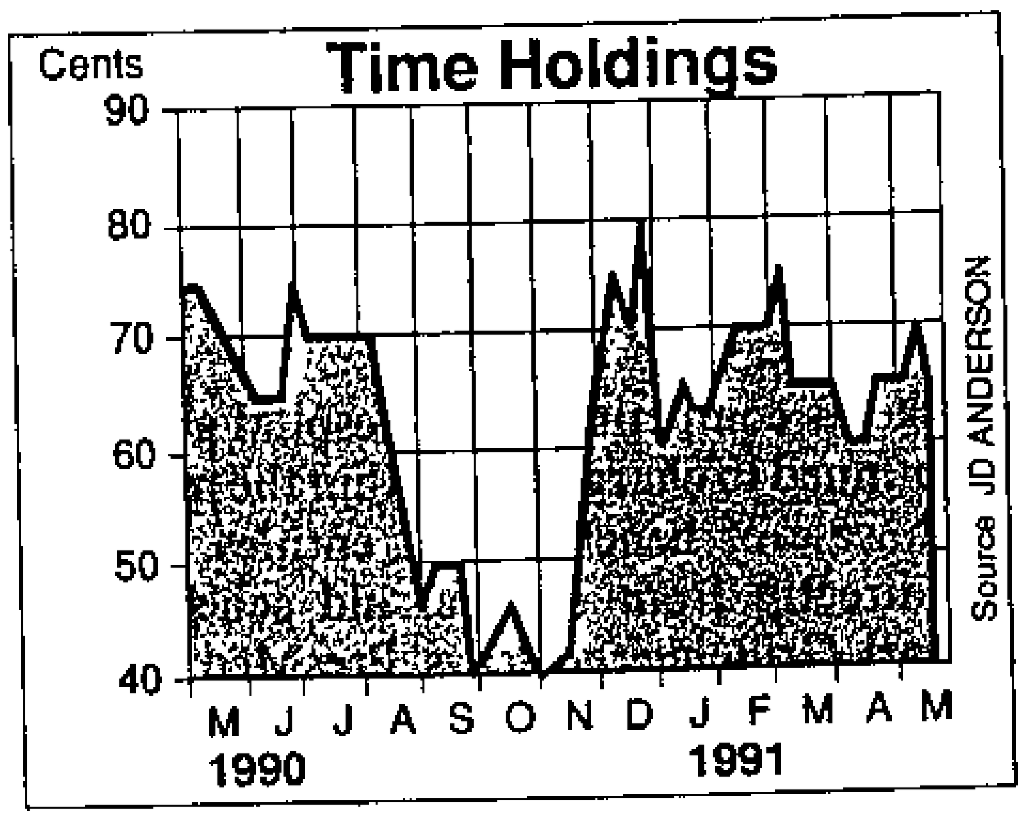
Unlike many competitors, Time is not pulling out of this market but is rather contracting its overheads, expanding its market focus and sitting tight for the much-heralded housing boom. The group began cutting overheads in this division in 1989 when the slump really began to bite. But the severity of the decline clearly caught management by surprise.

This time last year chairman and MD Colin Hibbert was projecting a slight earnings recovery in the housing division. Its contribution to earnings that year is estimated at about R1m. Hibbert is now hoping that the housing division will break even in 1991. If this can be achieved it will boost the group's performance considerably. EPS would double, even if the rest of the business stood still. With the other operations said to be looking good, Hibbert reckons earnings can be brought back to 1989 levels this year.

Time's Hibbert ... *hoping housing division will break even*

Time's property operations have taken over the housing division's mantle as the main sales and profit generator. According to financial director Neil Carter it contributed about R8m to group income, with the mining and industrial division chipping in a small profit.

Though Time's fledgling life insurance company contributed about R1m to earnings in 1989, the small surplus last year was reinvested in the life fund to protect against new business strain. Premium income in 1990 more than doubled to R10,4m. Carter says this is unlikely to be repeated in 1991. Time Life's turnover was also not consolidated. Carter says the life insurance operations will begin to make significant contributions to earnings and cash flow as the business matures in the next few years.



By raising R15m in the last two years through the issue of prefs, Time has been able to keep a rein on finance costs while funding the growth of new operations. Gearing at year-end was 45% (with convertible prefs included in shareholders' funds) though interest cover slipped to a meagre 2,3 times. In addition, management expects the group to pay tax this year — though only at an effective rate of 15%-20%.

Provided there are no further unforeseen surprises at Time's vulnerable housing division, there should be little reason why most of the earnings decline cannot be recovered this year. At 70c, this would put the share on a forward p:e of less than 3. On that basis, the share appears to have something to offer, though some investors may remain nervous about the exposure to the housing market.

Simon Cashmore

INSURANCE

LLOYD'S AGAIN

58

FM 7|6|91

Private hauliers are working towards a form of pool insurance — their riposte to an increased crime rate and across-the-board rises in insurance costs.

Through Hosken Insurance Brokers, the National Association of Private Transport Operators (Napto) has introduced Naptosure, providing wide cover, typically at lower rates than operators can negotiate for themselves. There is a safeguard against the usual weakness of such schemes — that efficient

PTO →

ECONOMY & FINANCE

FM 7|6|91 58

and secure operators eventually subsidise those with inadequate security or maintenance routines. Every operator will be rated on his own risk profile.

Underwritten at Lloyd's, Naptosure is quoting rates which alarm the local market. Hosken MD Don Tager says that, because the business is volume-driven, he can quote 2%-2,5% on a rig with cargo. On open market such rates would be considered suicidal.

Naptosure is a successor to Naptoplan, which was underwritten by Hollard Insurance. Hollard MD Miles Japhet says it disengaged because it was taking losses. Typically, when a local underwriter insures a haulier, it takes the first R150 000 for its own account, reinsuring the rest. A one-off write-off of a R1m rig would therefore account for several years' premiums.

Japhet acknowledges Naptoplan was not effectively marketed, and apparently covered only about 1 000 vehicles. He says Hollard still does considerable private haulier business. Typically, rates are about 4%. If a haulier with an unknown insurance track record were to ask for a quote, he could expect 8% and upwards.

Naptosure could be a lifeline for hauliers — if volumes come right. Tager says Napto has 360 members, operating 165 000 vehicles, though the potential is many times higher. Hosken's target is to get 10% of those into the scheme within a year. If that happens, there is no reason rates should change dramatically, even in SA's crime and accident-ridden environment.

To emphasise the marketing drive, the policy includes benefits that are considered unusual: tailored salvage clauses, an air search facility in the event of hijacking and vehicle downtime cover. The salvage clause allows operators first purchase option at special rates on vehicles that have been written off — a material benefit in large, standardised fleets. Cover is available for SA only, or for in-Africa hauls.

Long-term plans include a pool reserve that can be used to dampen rates, provide driver training or subsidise anti-hijacking devices. ■

Resolution to Saambou battle

Bday 7/6/95

Business Day Reporter (58)

FEDLIFE and Saambou have announced that Fedlife has elected to convert its debentures into Saambou shares immediately.

This is despite claims by companies associated to Prestasi Insurers that Fedlife is not legally entitled to convert its debentures. These investment companies failed in their bid to have a shareholders' meeting approving the Fedlife deal declared invalid.

Fedlife's decision brings to an end a battle for control over Saambou in which the leading players were Senbank-sponsored Trafalgar Portfolio Managers, Prestasi, Investec and Fedsure.

A statement released yesterday said the issue of shares had been approved by the Minister of Finance and the Registrar of Deposit-taking Institutions.

This enhances Saambou's capital base and removes uncertainty regarding Fedlife's participation.

The convertible debentures were issued to Fedlife following a Saambou shareholders' meeting which expressed overwhelming support for the agreement the two groups had concluded.

Fedlife now owns a total of about 34% of Saambou's issued share capital and Saambou has appointed three Fedlife directors to the Saambou board.

Standard objects to United's 'access' use

Star 7/6/91

By Cathy Stagg (58)

The Standard Bank of SA Ltd has launched an action in the Rand Supreme Court against United Building Society Ltd over the use of the word "access".

The bank claims the building society has infinged its trade mark, "access", by calling its home loan "Equity Access Plan", which is confusingly similar to its unregistered trade mark "Accessbond".

The word "equity" decribes what both home loans have in common, not access, it is stated in papers, so United could have left "access" out of its product's name instead of taking a "short cut in order to reap the benefits that would flow from association with the established Accessbond home loan".

Standard Bank will not be able to quantify the damages it has suffered and will continue to suffer as a result of United's continued infringement of its rights, it is submitted in court papers.

The building society counters by saying there is no confusion caused by the names of the two home loans because "equity access plan" is never used alone, always with the word "United".

And, it is submitted in papers, "Accessbond" is not a trade mark, distinctive or innovative, and it, too, is always used with the bank's name.

United strenuously denies it has done anything outside normal fair competition as observed by financial institutions generally, or that it has acted unfairly or unlawfully.

Fedlife secures stake in Saambou

CT 11/6/91. (58)

By ARI JACOBSON

FEDLIFE has come to the rescue of Saambou — under constant attack by potential takeover predators — by converting its debentures into a 34% stake in Saambou to form a financial institution worth R10bn.

In the heat of the battle with Trafalgar Portfolio Managers (TPM), who among others attempted to wrest control, Saambou issued convertible debentures worth of R55m to the life assurer.

The plan was to repay the debt in three years or provide Fedlife with the option of swopping these debentures for a share stake.

The share swop announced yesterday has been approved by the Minister of Finance an the Registrar of Deposit-Taking Institutions — which will obviously enhance Saambou's capital base and remove any uncertainty regarding Fedlife's position.

Recognising the tight allegiance, Saambou have appointed three Fedlife directors to the Saambou board.

The directors and management of Saambou and Fedlife expressed delight that their association had finally been cemented.

Saambou's independence has now been established and it can now concentrate on offering traditional services to its clients, said a spokesman.

He added the synergies would expose both parties to new markets.

"Fedlife will have the benefit of additional products and services to offer to its own clients and both parties will benefit from each other's presence in the financial services markets."

Saambou has acquired all the issued shares and the loan accounts of Planet Finance which should enhance Saambou's earnings potential.

New turn in share investigation

Absa, Allied open books to police probe

58

B/Day 7/6/91.

THE state's investigation into the allocation of 500 000 Allied Group shares to Allied Group chairman Norman Alborough took a fresh turn yesterday as Absa and Allied offered to open their books to the Attorney-General.

Absa CE Piet Badenhorst, Allied Group MD Bob Aldworth and an attorney representing Absa and Allied met the Attorney-General yesterday to assure him Absa and Allied would co-operate fully with any Commercial Branch investigation into the Alborough affair. In a statement last night, the companies said their CEs had invited police to make an immediate and full investigation of relevant company records.

They added that this initiative had come from Absa and the Allied Group themselves and that neither company had been approached by the Attorney-General.

Badenhorst and Aldworth, whom he appointed on Monday as a temporary replacement for former Allied Group MD Kevin de Villiers, said the initiative had been taken to rectify what they described as "distorted public perceptions" following Business Day's report yesterday.

Business Day Reporter

In another development, attorneys Bowman, Gilfillan acting for Absa and Allied, yesterday invited Business Day to disclose its sources of information within the Absa group. The law firm said its clients denied that information "furnished" to Business Day had come from Absa.

☐ De Villiers said yesterday he was likely to take a decision on his business future next week. He had received several proposals in the past few days, and in the past three months, and was evaluating them

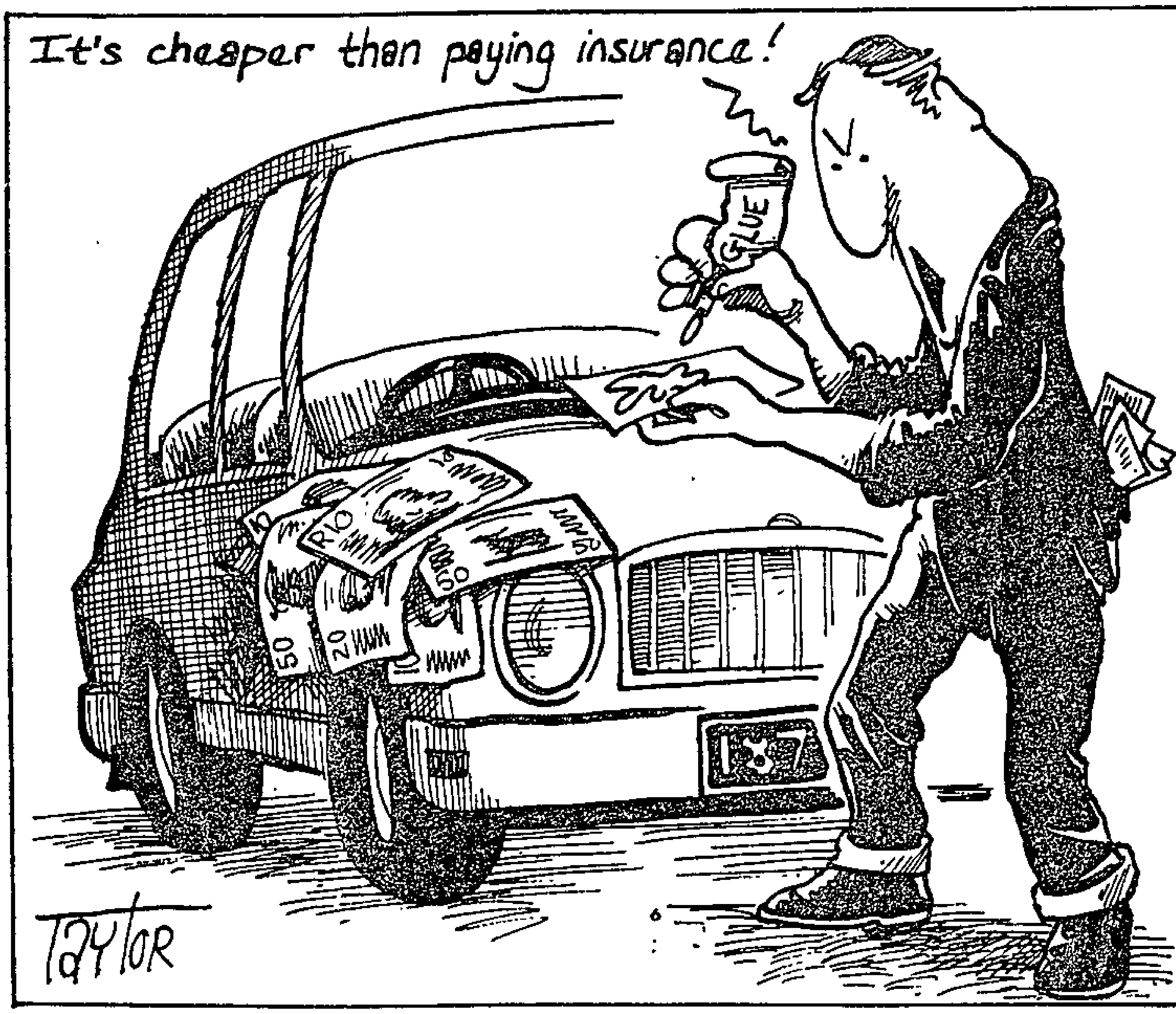
☐ In yesterday's report on Kevin de Villiers' resignation from Allied, we inadvertently referred to Piet Badenhorst as Absa's chairman. Badenhorst is Absa's chief executive. Herc Hefer is its chairman.

Insurance rates set to rocket

(58)

Star 8/6/91

MAGNUS HEYSTEK



MOTOR and household insurance premiums are set to increase by an average of 65 percent this year — and in some instances increases of more than 100 percent are likely.

This comes on the back of an average increase of 52 percent in premiums last year as the multiple effect of the soaring crime rate, the increased number of accidents and high replacement costs continues to batter the profits of short-term insurance companies.

This will be followed by another shock later this year when VAT becomes payable on short-term insurance premiums.

Losses

According to some experts the short-term insurance industry lost between R200 million and R250 million last year while losses this year are set to go even higher.

Comprehensive short-term insurance has now become a luxury with insurance premiums exceeding six percent of total disposable income. In 1980 the figure was less than two percent according to an estimate by Jan Erasmus, chairman of the Prestasi Group.

Already one insurance company, President Insurance, has closed its doors while another has had to receive a capital injection from its foreign parent in order to beef up the capital base of the company.

Increases

According to Cape-based David Hersch of Compuquote, insurance companies have already started pushing up their premiums. In the case of Aegis, premiums have soared by between 18 and 75 percent depending on risk and area.

Similar increases are set to be announced within weeks, he said.

According to Mr Hersch VAT will lead to more administrative work for brokers and agents, forcing them to pass these extra costs on to the public in the form of service fees.

"Brokers' margins are already so low that they will have no choice," he said.

Another cost factor the public has to bear is the steady increase in excesses in the case of motor insurancee.

Excess loading

"Put bluntly, motorists are not only paying steadily higher premiums for their cover, but they are also expected to bear a higher proportion of the losses themselves," Mr Hersch adds.

"In fairness it should be understood that the insurance companies are entitled to make a profit.

"The massive increases in motor premiums far exceed the inflation figures, but then so do the replacement cost of goods and spares," he says.

Insurance insiders confirm that more and more people are opting for limited cover, such as balance of third party and theft if they are not obliged to insure comprehensively due to lease or hire-purchase agreements.

Limited cover has a trickle-down effect on the general economy as damaged or stolen cars are not replaced as would be the case if the car was fully insured.

The spiralling cost of moto[r] insurance in particular is als[o] having an effect on motor ca[r] sales.

Compulsory comprehensiv[e] insurance is forcing man[y] buyers to either postpone moto[r] purchases or downgrade t[o] cheaper models.

Inflation proving a pro

MRS WWM of Bloemfontein writes: I am presently trying to assist an elderly (75 years old) widow on her finances. She has about R140 000 invested in a savings account which gives her an after-tax income of about R24 000 a year.

Considering her present needs, this is adequate. However, I am worried about what inflation can do to her future living standards.

With this in mind, could you suggest a possible investment strategy bearing in mind her age.

ANSWER: Rightly you should

Readers' queries

READERS who have queries about personal financial and investment matters are invited to write to Magnus Heystek, c/o Money Matters, PO Box 1014, Johannesburg 2000.

Battle rages on over Doornkop fees

City Press 9/6/91. (402) (58)

BRINK Estates – one of the agencies which marketed the Doornkop sites for Safrich – is refusing to refund hundreds of clients the administration fees charged for processing their site applications through the Soweto councils and the Transvaal Provincial Administration.

The company, owned by estate agent Eddie Meisel, is a franchise of the Durban-based Brink Property Group. His agency sold an estimated 600 of the 1 300 Safrich sites and took deposits of between R800 and several thousand rands.

In addition, buyers paid the agency administration fees of between R150 and R200 and a further R61 for site fees, which the agency was to pay to the TPA. Safrich could not obtain finance for the project, so cancelled all contracts. All deposits are now being refunded.

Brink Estates refuses, however, to refund any of the estimated R120 000 it took for administration fees. It also collected almost R24 000 in site fees payable to the TPA but never paid the money over. These fees will be returned.

Meisel told City Press the administration fee was not refundable. He had paid his staff "to do all the running up and down getting permits."

According to the TPA, sites were only for people on the councils' housing waiting lists but applications processed by Brink Estates – for which it charged the R200 fee – were processed for anyone.

The Housing Advice Project of the Legal Aid Bureau is helping many people obtain refunds.

"The Doornkop project is but one disgraceful example of the housing rip-off which occurs daily in this industry," said HAP director Brian Leveson.

"People believe developers will act in their interests and in Doornkop, unfortunately, they were misled.

"This development should not have been marketed before financial backing was assured. We can only hope the authorities will prevent any repetition of this fiasco."

Analysts reckon banking sector may be top-heavy

Bday 10/6/91. (58)

BRENT VON MELVILLE

THE banking sector may have become top-heavy following recent significant gains, prompted by wide-ranging changes in the composition of the industry, market analysts feel.

The two months to end-May saw a 9,2% rise in the banking index to a record high of 2 313, although it has since fallen slightly to about 2 271, largely on the fortunes of Stanbic and Absa, which together make up over 60% of the index.

For its part the financial and industrial index, of which 8,5% comprises the banking index, showed a 6% gain over the same period. The banking sector comprises 4,54% of the JSE's overall index.

There is consensus that the sector's short-term performance is unlikely to improve as the two major constituents, Stanbic (36%) and Absa (28%), are unlikely to extend their gains.

Ed Hern, Rudolph analyst Alan McConnochie said the deal between Liberty and Remgro to buy Stanbic at 4 500c should cap the price below 5 000c while reduced growth expectations from Absa should consolidate the share at about 850c. Stanbic is currently at 4 575c and Absa at 885c.

On fundamentals, analysts feel that while the merger will take some time to settle down, investors could look forward to good earnings and capital growth in the longer term.

The consensus is that there will be real earnings growth for the current year and further re-rating of the sector relative to industrials could still be merited.

Positive factors include the fact that artificial interest rates in an environment of relatively high levels of liquidity and static demand for credit will provide the banking sector with an above average interest margin on funds advanced.

There are still those stocks which will continue to underperform. Bankorp, according to market observers, is a classic case in point.

Part of the reason is that from a disclosure point of view the investor has no idea what its asset base really is. Analysts feel that buying Bankorp stock is really an act of faith in its management, and the recent loss of director Hennie van der Merwe to FSI served to dent that faith.

And there are still those market observers who expect further, and dramatic rationalisations within the sector. Borkum Hare analyst Graham Baillie said he had a "gut feeling" of an impending merger between Investec, Saambou and Fedsure, to form a wider financial services group able to compete with the larger banking groups.

"It is an exciting proposition and makes sense especially from the Investec point of view which will get access to retail funds."

A pointer to a proposed merger was last week's conversion of convertible debentures into equity. Baillie said it could merely be a strategic move for Fedsure, which has a 34% equity stake in Saambou, or it could be a sign that something is going on.

"The emphasis remains on securing market share in the retail sector of the market, ahead of the anticipated economic recovery in 1992."

THE MONEY MARKETS by Andrew Gill

Stals still bent on controlling market

B/Day 10/6/91

(58)

A SCANTILY-clad appearance by Reserve Bank Governor Chris Stals on the cover of a local magazine did little to daunt him in his determined effort to control the market last week as a further R800m was drained in special open market transactions.

It brought the total outstanding to R1,3bn, a significant portion of Thursday's R1,888bn shortage.

Relatively heavy rand/dollar swaps were also used to administer the squeeze, and could well have pushed the amount still to mature in special tenders, reverse repo's and dollar swaps to over R2bn, some analysts believe.

Their maturation would theoretically result in a surplus, an indication of the comfortable position in which banks find themselves.

The moves again failed to put any upward pressure on rates as they kept at their lows, and the shortage dipped below R2bn. There is no consensus on whether Stals is happy with rates and the shortage at their current levels or wants them to show some upward movement.

It remained a quiet market with continued strong demand for three-month liquid BAs and anything longer than six months held onto ugly duckling status.

Investors are apparently prepared to pay for BAs down at 16,70%, realising a fairly attractive yield of 17,42%.

Some banks have been selling three-month BAs as low as 16,65% but most have been quoting them up at 16,80% and above.

The week did reveal that the authorities were still intent on keeping conditions tight and their efforts were having a dampening effect on market activity.

Among the moves made last week was a reverse repo tender for RSA stock on Monday which was undersubscribed at R300m for the R500m on offer, thanks largely to the high rediscount rate of 19,50%.

Wednesday's R500m special TB tender was well subscribed at R3,2bn coming out at an average rate of 17,008%.

Friday's weekly TB tender saw R150m alloted for the R682,4m subscription at an average rate of 16,68%, a slight reduction from the previous week's 16,69%.

The Bank drained R150m for the second week and in effect drew an extra R50m out of the market in rolling over the March 8 R100m issue.

Corporates still seemed set on taking the overnight financing route with call at around 17% compared to three-month BA financing at almost 50 points higher.

□ **William Richards' column on The Week Ahead appears on Page 8.**

CT 10/6/91

Banking sector 'top heavy'

(58)

Own Correspondent

JOHANNESBURG. — The banking sector may have become top-heavy following recent significant gains, prompted by wide-ranging changes in the composition of the industry, market analysts feel.

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Critics point to flaws in Tucker's scenario

Bday 12/6/91

TIM COHEN

AN article in the left-wing journal Work in Progress (WIP) has criticised former Perm MD Bob Tucker's scenario for social and economic upliftment.

Financial institutions Old Mutual, Nedbank and the Perm are trying to sell the "compact" — which has been worked on behind the scenes for nine months at a cost of R1,7m — to organised labour, civic associations, progressive political parties, "the regime" and capital, the article says.

The future scenario is an "unlikely marriage" of ANC/Cosatu's Growth through Redistribution economics and current efforts by the state and capital to mimic newly industrialised countries like South Korea and Taiwan, the article says.

So far the scenario has been presented to the ANC's national executive, Anglo American, Cosatu leadership and the ANC's department of economic planning, among others.

"F W de Klerk was said to be especially keen," the article's authors, Patrick Bond and Mark Swilling, say.

Persuading big business of the merits of Growth through Redistribution, social investment taxes and other deals with the ANC and Cosatu will not be easy. "But the team concludes that a compact is in everyone's interests, because managing SA's political transition fundamentally depends on both a lack of violence in society and strong economic growth."

In reality, unmanageable township strife and the spreading slump in the manufacturing, mining and agriculture sectors appear as insurmountable barriers to a successful social democratic transition.

The article accuses the scenario team of a "simple-minded cultural model" and says its analysis on racial integrations "comes perilously close to 'blaming the victim' in classic neoconservative style". But, it says: "Tucker stunned his audiences with the most ambitious housing programme yet mooted in SA."

The scenario also chips a big crack in the armour of smug self-satisfaction that Tucker says characterises the current occupants of the economy's commanding heights. "... The scenario team criticises the opulence of SA corporate elites who spend more money on buildings and fanciful decoration than on R & D and new machinery."

The article suggests progressive forces launch their own scenario planning or risk having to accept someone else's because no better option exists.

Currencies reel as dollar starts bull run

B/Day 12/6/91

58

SHARON WOOD

CONCRETE evidence of a healthier US economy triggered a dollar bull run in currency markets this week — a trend which is expected to continue in the weeks to come.

Worldwide, currencies reeled under the dollar's strength and central banks were quick to step into the market to stem the dollar's upward momentum. On Monday the Bank of Japan was the first to intervene, closely followed by another 10 major central banks.

But the dollar remained firm and dealers say intervention is aimed at slowing, rather than stopping, its upward trend.

Standard Bank's weekly International Comment says Monday's bout of intervention highlights the near-term possibility of generalised central bank intervention if dollar gains are seen to be disorderly.

Dollar strength looks set to be a feature in forex markets for the next few weeks. Analysts say the next batch of economic indicators to be released tomorrow and on Friday will probably buoy the currency further.

The release last week of better than expected US employment figures has made markets optimistic that this next bout of economic indicators will most likely be favourable.

The higher hourly wages and employment figures released last week should be reflected in higher household incomes for May, increased retail sales, and producer prices are expected to show only a modest gain. Other statistics to be released on Friday are the Consumer Price Index, industrial production and capacity utilisation figures.

The pound and yen were hardest hit by dollar strength last week, shedding about 2% against the dollar since Wednesday. The Deutschmark fell by about 0,9% against the dollar.

On the Japanese front, the dollar broke through the 139,27 yen key resistance level which has now become a support level. FNB technical analysts say the yen was previously moving in a narrow band and this normally precedes a sharp movement in the currency.

The expected cut in the Japanese discount rate is unlikely to occur while the dollar remains strong, according to the Union Bank of Switzerland

In addition to dollar strength, the Deutschmark suffered from negative sentiment regarding the economic outlook and political instability in eastern Germany. But Union Bank says the German economic outlook may be understated and there could be some consolidation of the Deutschmark against the dollar.

Economic recession and political uncertainty continue to dominate forex dealings in sterling and it has become extremely vulnerable to adverse developments on the political front. Sterling penetrated its key support level at $1,6864 last week and is now establishing a new low.

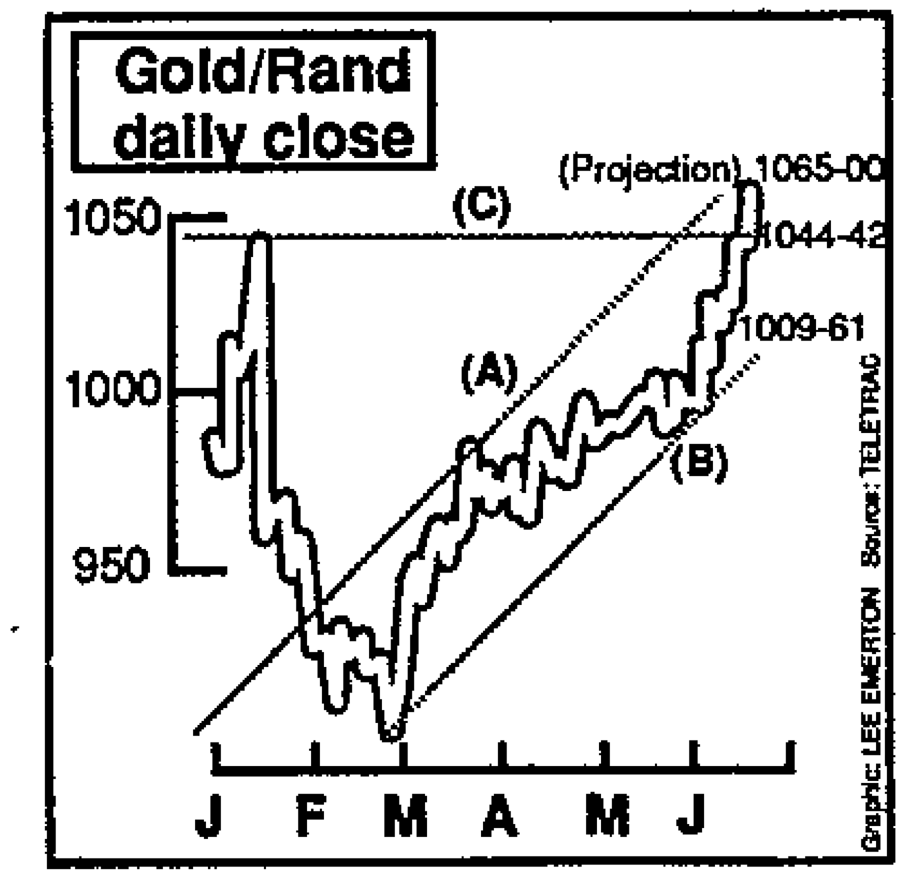
The rand eased by about 0,5% against the dollar during the week. But it firmed against the cross rates.

The dollar bull run had a positive spinoff on the gold market — the rand gold price topped its previous January high.

The graph shows the rand gold price is firmly within a bull channel (AB) and FNB projects a rise to R1 065/oz.

The dollar gold price, although still lower than the January high, gained over $7 during the week.

As yet, the reasons behind gold's strength have not been revealed. Dealers say that supply constraints, rather than growing demand, have buoyed the gold price.



REVIEW

COMPANIES

Momentum Life soars amid speculation

ANDREW GILL

MOMENTUM Life's share price rocketed almost 18% yesterday amid speculation that Rembrandt was set to rationalise its insurance interests. B10ay

The share rose 60c to a new 400c high in light trade that placed the share on a price-to-earnings ratio of 16,5 times compared to the previous day's 14. 12/6/91

Momentum MD Niel Krige said it was "early days yet" for any rationalisation. However, something would be happening within the next 12 months.

When Amalgamated Banks of SA (Absa) was formed earlier in the year the group said it was looking at ways to rationalise various operations, including insurance.

Edey Rogers analyst Dave Southey said it was likely that Rembrandt would rationalise its insurance interests, possibly in a link-up with Sage Life. S8

Sage director Bernard Nackan said the speculation was without foundation, but that rationalisation of Absa's insurance sector would be examined.

Sage, Commercial Union and Momentum are among Absa's major insurance interests. Rembrandt and Volkskas (now part of Absa) each hold 28,7% in Momentum. Absa has a 49% stake in Sage and a 30% interest in Commercial Union.

Innovation will be needed in banking to meet future challenges

Star 13/6/91

By Ann Crotty (58)

The ANC's Freedom Charter raised the spectre of nationalisation or extensive state control of the banking sector. In an address, earlier this year Stanbic chairman Henri de Villiers highlighted a number of reasons why a government should not interfere with the operation of a banking system.

(58)

13/6

Calls for increased state control of the banking sector are in part a response to the tendency over the years for the banks to serve the First World — largely white - sector of the economy.

This tendency has been reflected not only in the lending policies of the banks but also in their staffing with a predominance of white staff particularly in managerial ranks.

In his address, Stanbic chairman Henri de Villiers stated that the temptation by a future government to interfere with the banking system should be strongly resisted.

"For a future government seeking to redress inequalities, the banking sector may appear to offer a 'quick fix'. Nationalisation or extensive state control of the sector may be seen as ways to ensure that the staffing and lending policies of the banks serve the economic and social objectives of a majority government."

Mr De Villiers refers to suggestions that a future goverment could manipulate interest rates and direct allocation of credit to sectors considered socially desirable.

But he points out that South Africa has already had bad experience of di rect government interference in the financial sector. "For a long time interest rate and credit controls seriously distorted financial flows and this demonstrably had most undesirable long term effects on the economy."

International experience suggests that market mechanisms and private ownership are most conducive to the efficient allocation of credit and to sustained economic growth.

But as Mr De Villiers stressed: "This is not to say that our banking system should remain static. Innovation will be needed if the sector is to meet the challenges of a changing environment.

"New approaches will be required if emerging black consumers and business people are to be brought into the financial system in a meaningful way."

Although the ANC's Freedom charter includes nationalisation of banks as well as mines, as one of its clauses Mr De Villiers believes that nationalisation (implying state ownership) now appears to have little support among ANC thinkers.

"The probable reason for this is that bank nationalisation has not proved successful even in relatively dynamic countries such as France and Portugal, and is therefore being undone now."

The focus has shifted to alternative ways of exercising influence over the banking sector such as manipulating interest rates and directing the allocation of credit.

Referring to motives behind the nationalisation sentiment Mr De Villiers notes that the perception is that the banks have done little to provide credit for low income housing or emerging black business people. In addition there is a feeling that banks have not done enough to promote job creating industrial growth.

Greater state control is seen as a way of en suring that the banks direct resources to redressing these inequalities.

International experience shows that state-directed credit and interest rate policies have in some cases contributed to growth, but in the long term have led to substantial distortions in financial markets and economies where they have applied.

Noting some of the attempts to address some of the criticisms leveled at the banking sector Mr De Villiers states that the major banks have made serious efforts to broaden their black staff base and also to broaden lending to black and small business.

"From the financial sector's point of view these actions to make up for limitations of the past were borne out of a recognition of demographic trends and enlightened self-interest."

Although some progress has been made, the efforts of the banks have been restricted by practical problems. The supply of suitable black trainees has been constrained by the disturbances in the educational system since 1976.

Broadening credit facilities to a whole range of people (from landless peasants to poor urban dwellers and very small businessmen) is constrained by the existence of legislated maximum interest rates under the Usury Act.

"In practice the problem stems principally from bankers and other lenders in the formal economy having adopted the position that their lending should be secure, cost effective and remunerative.

"Also their return must adequately reflect both the particularly high cost of doing business in marginal areas of the economy and the potentially high risk inherent in the informal sector lending. Comparatively low legal maximum interest rates have effectively prevented this."

Mr De Villiers agrees that redistribution is needed but stresses that the financial sector should not be manipulated in order to achieve this redistribution since financial markets play a critical role in allocating resources efficiently.

He believes that specialised financial institutions should be created (with the assistance of the banking system) to direct funds to meet the much wider needs. Where social considerations are perceived to dictate lower than market lending rates, the state may choose to subsidise some or all of their lending.

"Banks can and will do much to assist in solving the country's social needs through suitable channels. But alienating their function, forcing a diversion of resources into areas which they are not suited to serve, or forcing them to provide banking services at uneconomic prices or in uneconomic locations, as a social service, would be incompatible with the need to have an economy sufficiently dynamic and competitive to ensure rapid economic growth."

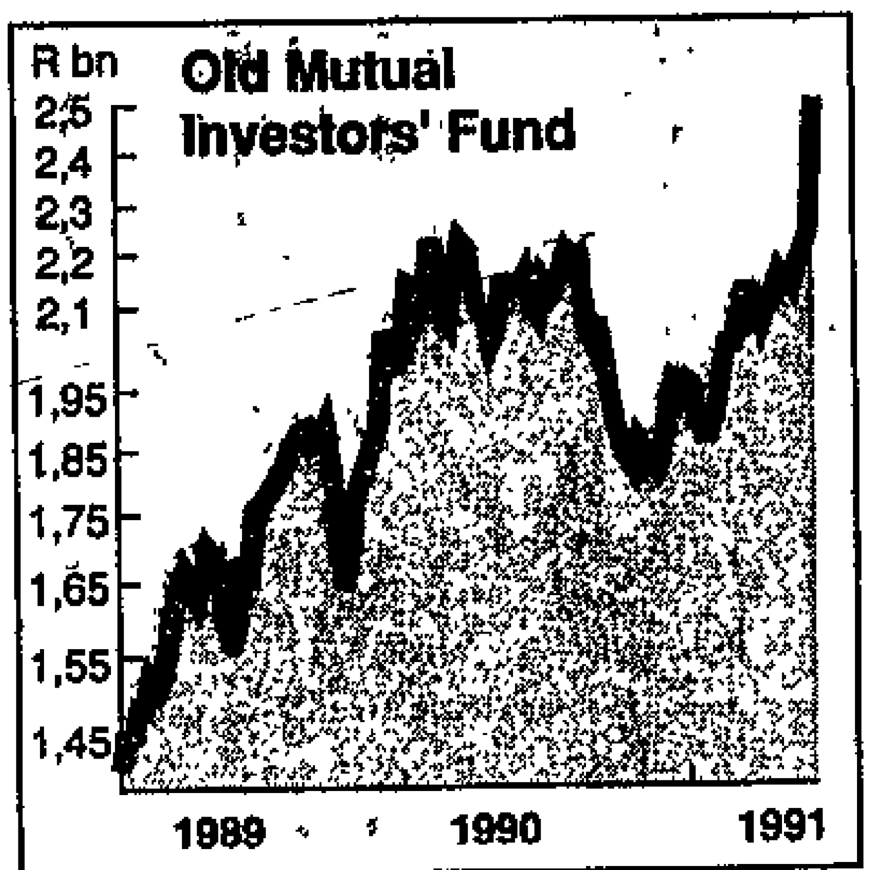
Old Mutual unit trusts top R3bn

LIZ ROUSE (58)

STRONG inflows and a buoyant stock market have pushed the total value of Old Mutual unit trusts over the R3bn mark for the first time.

Old Mutual said the rise reflected increasing investor confidence in the economic outlook. B/day 13/6/91.

Assistant GM (unit trusts), Bastiaan van der Westhuizen, said there was little doubt investors believed the economy was heading for better times. The increasing optimism which had been



Graphic: FIONA KRISCH Source: OLD MUTUAL

slowly gaining ground had also been helped by the firmer gold price.

There has been a particularly strong demand for units in the Investors' Fund — SA's largest trust with more than 250 000 account holders. The value of the fund alone — which has shown a performance of nearly 25% a year over the past 10 years — rose to a new peak of more than R2,5bn yesterday.

Van der Westhuizen said the trend was likely to continue.

INSURANCE 58

VAT POSERS FM 14/6/91

Insurers and brokers are reeling under the potential impact of VAT. Unlike many interest groups, the short-term industry has expressed little objection to being in the VAT net, though it made a case at the outset for exemption. At this stage, however, it doesn't know how to handle the tax.

Renewals for October 1 — VAT-day — must be systemised in August, so the industry has a mere 10 weeks to get its act together. Nor has it any useful foreign experience to draw upon. Except in New Zealand, insurance is not within the indirect tax net, and legislation there is not particularly relevant.

An SA Insurance Association (Saia) committee, chaired by Commercial Union's Roger Schooling, is working on the problems. Saiba, the brokers' organisation, has its own committee headed by Bill Robinson of First Bowring. Both have called in Ann Pappenheim, tax partner at Deloitte Pim Goldby, to help thread the needle.

Among the problems on which the Receiver will have to issue guidelines are:

- Treatment of excesses. The question here is, in a R5 000 claim in which the insured bears the first R1 000, who pays VAT on the excess? Robinson feels strongly the sum insured, claim and excess should all be inclusive of VAT. So far, there is no general agreement;
- Time of supply is a principle underlying VAT collections. At present it seems that this will be the date on which a premium is paid to the underwriter. That could leave a gap of several weeks between payment by the client via the broker to eventual payment of VAT In any case, insurers do not issue VAT invoices but "invitations to renew." It looks as though brokers will have the use of extra cash flow for up to three months. Schooling says that is so, but brokers could also lose out because commissions are subject to VAT and these cannot be increased because they are regulated. It's a grey area;
- Averaging, the practice of paying a proportion of a claim when a client is found to be under-insured, creates complications;
- What of Lloyd's? The London market could enjoy a 12% rating advantage if it is classified as a foreign supplier. Here the argument is that Lloyd's is a registered SA insurer (in terms of the Insurance Act), actually has an SA representative and also has funds deposited here.

  Obviously, the local market wants Lloyd's classified as an SA vendor. But if locals do not win the argument, Lloyd's will not have anything like a 12% advantage, because Lloyd's will not claim input credits;
- The transitional period is likely to be difficult. Most commercial premiums are paid annually. Premiums paid this month, for example, are not subject to GST. After September 30, premiums will be in the net. Robinson says a decision is needed now from underwriters. Will they fully indemnify claimants after October 1, including the VAT element, he asks, or will they simply say "that's your bad luck?"

  Schooling says the Saia committee last week reached consensus: all 22 short-term insurers will be asked to carry the VAT charge on such accounts, until the next renewal. The argument is that insurers will have received VAT-less premiums and will pay claims against which they charge input credits. It should be a case of swings and roundabouts; and
- Reinsurance is a potential minefield. Premiums handed to local reinsurers are clearly in the net Premiums to foreign reinsurers may not be. One view is that these are exports and therefore zero-rated. But then, asks Robinson, what of the input costs of the local broker who arranged the transaction? Adding to the conundrum, there is reinsurance inwards — when the local market is offered a share of an overseas risk.

Robinson says the industry is trying to finalise a list of problems and get guidelines from the Department of Finance quickly Meanwhile, there has been wild speculation about the effect VAT will have on rates.

"There's been a simplistic assumption that there will be a 12% effect, which is not so." Some underwriters agree, estimating that the true effect will be around 4%-6%. Robinson is worried that underwriters may take advantage of VAT to make increases of perhaps 15%-20% — price hikes that are really necessary because of underwriting losses, not because of the new tax.

Schooling recognises the danger. In practice, insurance classes that incur heavy losses should have precisely enough input costs to cancel the effect of VAT, so VAT is no excuse for a rate increase. To underline the point, CU will increase rates before October 1 and there will be no further increase until there is a clear distinction between the introduction of VAT and the underlying state of the insurance market. ■

LIFE ASSURANCE FM 14/6/91

NEW BREED OF PIGS (58)

New Prudent Investment Guidelines (PIGs) for life assurers will be gazetted soon. Apart from granting assurers slightly more latitude in portfolio management, the new-look PIGs could clean up the controversy over 100% equity-linked products.

"Guidelines" is a bureaucratic solecism. In practice they are regulations. They are more flexible than the prescribed assets formula which they replaced, because the Registrar's office (now Financial Services Board) can condone minor non-conformity where a sound justification is presented.

Revisions have been out for comment since late last year. It is widely expected that the major change will be the composition of equity-plus-property which assurers may include in portfolios — the total of these two components will probably remain 85%.

Several life offices have complained that the current formula forces them to put more in property than they really want. They hope the new formula will give more latitude. But it is unlikely the balance of PIGs — relating to gilt investments — will be altered.

There is keen interest in how the vexing question of equity-linked retirement annuities will be handled.

FM 14/6/91 (58)

A 100% equity-linked RA falls outside the guidelines so long as no guarantee nor any suggestion of underwriting is attached to the policy.

Several market leaders introduced these products. Others, notably Liberty Life, objected on the ground that a retirement plan, without guarantee, meant the future of the fund depended entirely on the skills of a portfolio manager. Though that view was respected by many life offices there was, typically, a follow-my-leader procession of unguaranteed products into the market.

While the board will not disclose the final direction of the guidelines, it seems that unguaranteed products — because they are outside the guidelines — posed some drafting problems. ■

HCI holds the line in tough conditions

(58)

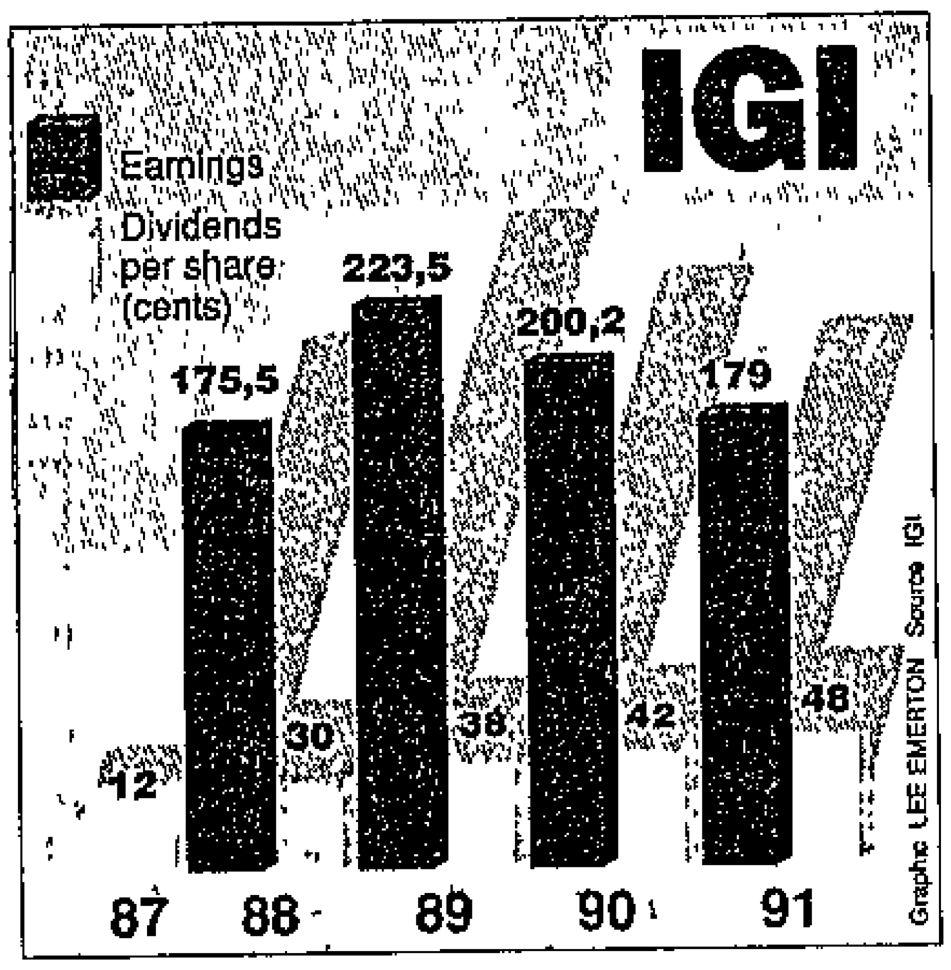
B/Day 14/6/91.

MARCIA KLEIN

RESULTS of Hosken Consolidated Investments (HCI) for the year to end-March showed a 9,8% increase in attributable profit to R19,8m (R18m) and almost static earnings of 166,9c (166,2c) a share.

The HCI figures incorporate mixed results from IGI Insurance Group (IGI), Safrican Life Investment Holdings (Saflife) and recently acquired Crendel Investment Corporation.

Short-term insurance company IGI reported a 13,6% drop in attributable earnings to R23,0m (R26,6m), and a 10,5% decrease in diluted earnings to 179c (200c) a share in what chairman Mike Lewis described as "some of the toughest trading conditions we have seen in the insurance market in 30 years".



However, Lewis said he was pleased that the group was able to achieve a marginal improvement in its net income before tax to R23,0m (R22,4m) despite the soft national and international insurance markets, rising crime and high inflation.

The group increased its final dividend by 24% to 31c (25c) a share, bringing the full year dividend up by 14,3% to 48c (42c) a share due to "the state of the insurance market and to the current trading position of the company".

Lewis said that under the circumstances he was "over the moon" with the results

Gross premium income rose by 23% to R557,6m (R455,9m) and net premium income rose by 23% to R446,5m (R362,6m). Lewis said the rating of commercial insurance accounts had come under considerable pressure during the period. The increase in premium growth was due to "increased market penetration and a return to sound undewriting principles which were applied to the personal lines and motor insurance accounts which represent IGI's core business".

He said IGI did not implement indiscriminate rate increases across the board.

"We are nearing the end of the rate war, and I am confident that the industry will return to normal conditions in the near future", he said.

HCI's life assurance arm Saflife reported a 41% growth in attributable earnings to R13,7m (R9,7m) and a similar increase in earnings to 46,4c (32,8c) a share — the seventh year in succession that it has increased its earnings by more than 40%

Its gross recurring premium income grew by 74% to R167,9m (R96,5m) and its net recurring premium income rose by 75% to R159,0m (R91,0m).

Investment income rose by 63% to make a R70,0m contribution, reflecting "the investment expertise of the group's Safegro investment arm".

The full year dividend was up by 38% to 27,5c (20c) a share, although the final dividend was maintained at 15c a share to "eliminate the disparity between the interim and final dividends".

Lewis said that "the healthy financial growth of the group is expected to be easily sustained next year", with a further strong improvement in both turnover and operating profit.

Holding company HCI increased its final dividend by 42,8% to 30c (21c) a share, bringing the total dividend for the year up by 25% to 45c (36c) a share.

Saflife 'star performer' in HCI group

C/T 14/6/91. 58

Own Correspondent

JOHANNESBURG. — Hosken Consolidated Investments (HCI) results for the year to end-March — incorporating mixed results from IGI Insurance Group (IGI), Safrican Life Investment Holdings (Saflife) and recently acquired Crendel Investment Corporation — showed a 9,8% increase in attributable profit to R19,8m (R18m), and almost static earnings of 166,9c (166,2c) a share.

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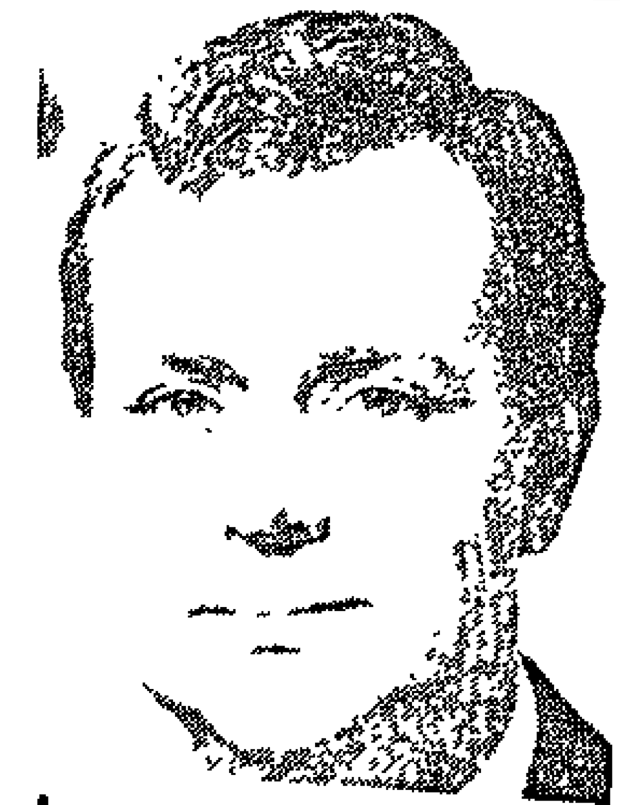
Results from Crendel were brought in for the first time, reflecting its trading over the three-and-a-half months since the acquisition.

Lewis said Saflife was "the star performer", while IGI performed "remarkably well in a highly competitive market".

The insurance broking and reinsurance broking companies increased profits both in SA and abroad.

A 28,6% increase in income from associated companies and the foreign subsidiary to R5,1m (R4m) was "an important contribution that was received largely from our broking activities," said Lewis.



Lawrence Swanson has been appointed financial director of Country Fair Foods.

Chris Clucas has been appointed resources director of Country Fair Food.

Carl Grim has been elected chairman of the SA branch of the International Institute of Quarrying.

NBS cuts more slices in hard-hit Khayelitsha

Argus 15/6/91

58

MAGGIE ROWLEY

Business Staff

IN spite of being hard hit by bond boycotts in Khayelitsha, the NBS is to open a second office in the area, says Mr Kingsley Loney, Cape regional general manager.

The move comes at a time when many other financial institutions are reducing their exposure in the black housing market after being badly bitten by boycotts and non-payment of bonds.

He said they were embarking on an intensive education campaign in Khayelitsha to educate would-be homeowners.

"Black people in South Africa have been denied home ownership for so long that there is a dire need for education on all aspects of home ownership.

"We will be working through the civic associations and will be presenting videos, slide shows and manuals on the whole ambit of home ownership including the financial implications," he said.

He said many borrowers in Khayelitsha had not paid an installment since occupying their homes and "unfortunately'" the NBS had had to repossess 23 homes. The legal process was continuing.

"As far as we understand the boycott is over and we urge all NBS borrowers who are in trouble to come in and talk to us before the problem gets so serious that we are no longer able to help them.

"The bottom line is that bond repayments will have to be resumed," he said.

Discussing rationalisation in the banking sector, Mr Loney said the NBS was determined to remain independent.

"While there are advantages of going bigger, such as the rationalisation of computer and branch networks, we genuinely believe that there is room for smaller players."

He said the NBS, whose continued independence has been speculated on recently, were confident that their shares were in friendly hands.

In addition, he said, the current share price of around R9,25, exceeded the asset value of shares by about R1.

"To attract our shareholders any institution intent on taking the NBS over would have to offer way in excess of the trading price which does not make it a very attractive acquisition," he said.

NBS was listed in April 1987 with a share issue price of R2. The recent merger of four leading financial institutions under the ABSA banner had fueled speculation in the market briefly pushing NBS shares up to R10, he said.

Mr Loney said the NBS valued the independence of estate agents as much as they valued their own.

"We don't propose buying up stakes in estate agencies as has been done by most of our competitiors. Most of the big players in the estate agency business have been signed up but there are many other smaller agencies which we feel confident will supply us with mortage bonds.

"If the supply dips we will have to think again."

During the past financial year, the NBS showed the highest percentage increase in its mortgage book of any other institution with gross lending exceeding R2-billion.

There were indications the market was quieter with the exception of the Western Cape partly due to the prevailing high rates of interest.

"And I very much doubt that we will see a further drop in interest rates this year.

"If Chris Stals (governor of the Reserve Bank) were to drop interest rates now I think we would see inflation above 20 percent as quick as a wink," he said.

ARG. 15/6/91

Future government 'should not interfere in banking'

(58)

ANN CROTTY

Weekend Argus Correspondent

JOHANNESBURG. — The ANC's Freedom Charter raised the idea of nationalisation or extensive state control of the banking sector. In an address, Stannic chairman Mr Henri de Villiers highlighted a number of reasons why a government should not interfere with the operation of a banking system.

Calls for increased state control of the banking sector are in part a response to the tendency over the years for the banks to serve the First World — largely white — sector of the economy.

This tendency has been reflected not only in the lending policies of the banks but also in their staffing with a predominance of white staff particularly in managerial ranks.

Mr De Villiers said that the temptation by a future government to interfere with the banking system should be strongly resisted.

"For a future government seeking to redress inequalities, the banking sector may appear to offer a 'quick fix'.

"Nationalisation or extensive state control of the sector may be seen as ways to ensure that the staffing and lending policies of the banks serve the economic and social objectives of a majority government."

Mr De Villiers refers to suggestions that a future goverment could manipulate interest rates and direct allocation of credit to sectors considered socially desirable.

But he points out that South Africa has already had bad experience of direct government interference in the financial sector.

"For a long time interest rate and credit controls seriously distorted financial flows and this demonstrably had most undesirable long term effects on the economy."

International experience suggests that market mechanisms and private ownership are most conducive to the efficient allocation of credit and to sustained economic growth, he said.

"But this is not to say that our banking system should remain static. Innovation will be needed if the sector is to meet the challenges of a changing environment.

"New approaches will be required if emerging black consumers and business people are to be brought into the financial system in a meaningful way."

Although the ANC's Freedom charter includes nationalisation of banks as well as mines as one of its clauses, Mr De Villiers believes that nationalisation (implying state ownership) now appears to have little support among ANC thinkers.

"The probable reason for this is that bank nationalisation has not proved successful even in relatively dynamic countries such as France and Portugal."

The focus has shifted to alternative ways of exercising influence over the banking sector such as manipulating interest rates and directing the allocation of credit.

Referring to motives behind the nationalisation sentiment, Mr De Villiers notes that the perception is that the banks have done little to provide credit for low income housing or emerging black business people.

In addition there is a feeling that banks have not done enough to promote job creating industrial growth.

Greater state control is seen as a way of ensuring that the banks direct resources to redressing these inequalities.

International experience shows that state-directed credit and interest rate policies have in some cases contributed to growth, but in the long term have led to substantial distortions in financial markets and economies where they have applied.

He said the major banks have made serious efforts to broaden their black staff base and also to broaden lending to black and small business.

"From the financial sector's point of view these actions to make up for limitations of the past were borne out of a recognition of demographic trends and enlightened self-interest."

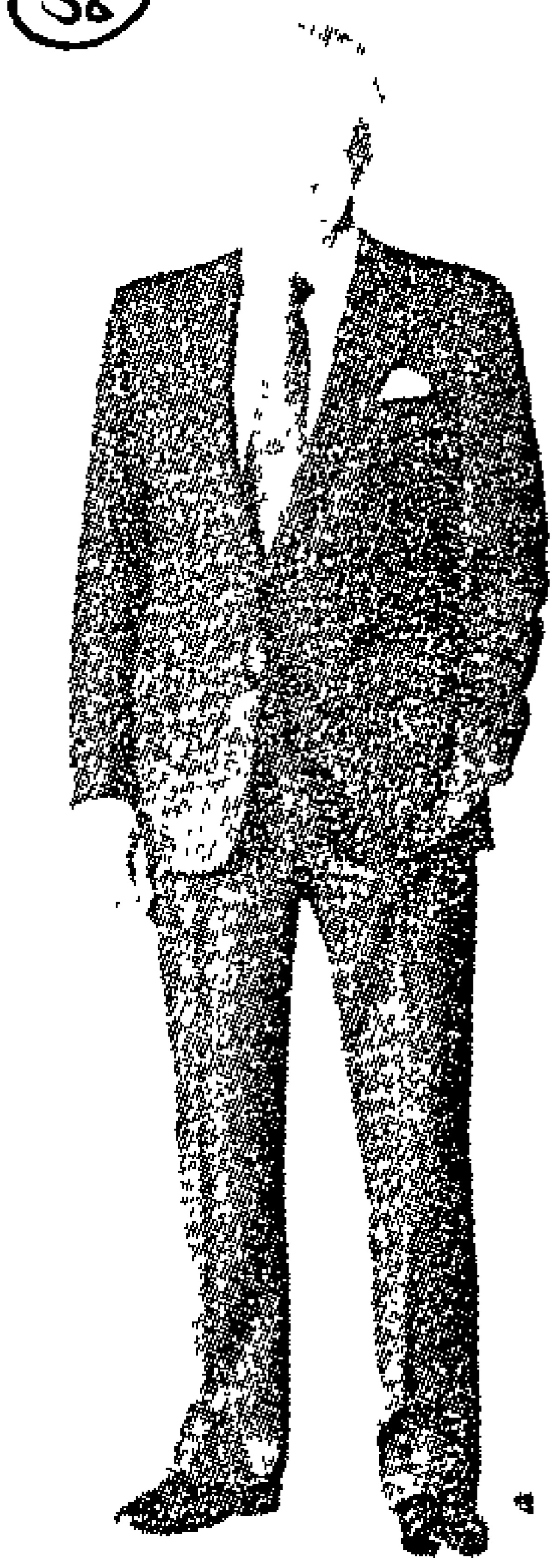
Although some progress has been made, the efforts of the banks have been restricted by practical problems. The supply of suitable black trainees has been constrained by the disturbances in the educational system since 1976.

Broadening credit facilities to a whole range of people (from landless peasants to poor urban dwellers and very small businessmen) is constrained by the existence of legislated maximum interest rates under the Usury Act.

"In practice the problem stems principally from bankers and other lenders in the formal economy having adopted the position that their lending should be secure, cost effective and remunerative.

"Also their return must adequately reflect both the particularly high cost of doing business in marginal areas of the economy and the potentially high risk inherent in the informal sector lending.

"Comparatively low legal maximum interest rates have effectively prevented this."



☐ **Henri de Villiers:** Resist temptation

THE MONEY MARKETS by Andrew Gill

All quiet on the market front

BANKS were "alive and well in the morgue" as a dearth of activity complemented their relatively comfortable mid-month position in the money market last week. BDay 17/6/91.

Continued attempts by Reserve Bank Governor Chris Stals to keep the market tight failed to maintain the shortage above R2bn as he squeezed a further R300m in a reverse repo tender, bringing the current outstanding special issues to R1,6bn, just R188m away from Thursday's shortage.

Once dollar swaps are taken into account, treasurers believe the market is definitely in surplus, possibly to the tune of about R500m, but for the open market operations.

The cost to the Reserve Bank is fairly sizeable. Assuming R1,6bn is maintained as the amount outstanding in open market operations and an average rate of about 17% is paid on it, the Bank will be paying about R272m a year. If the current amount is out for an average of 18 days, R13,4m leaves the Bank's coffers.

The Bank has been trying to stem some of the liquidity through the capital market on a fairly consistent basis, but that has been more than outweighed by government's continued high spending.

Small amounts have been flowing out in the form of taxes, and note liability has fallen below R9bn. Another liquidity-boosting factor is said to be foreign exchange inflows but its scope is difficult to ascertain.

58

Activity was all but dead again with almost no trade reported in anything above six months. Long lunches were apparently the order of the week, with demand at three months reported as fair but quiet. Relatively strong demand for Treasury bills surfaced again and the R150m bills on offer were subscribed at R400m. The average rate of 16,66% was two basis points off the previous Friday's tender.

Call was one of the only movers among interest rates as it softened over the week to between 16,75% and 17%.

Sankorp to shed Metropolitan units

(58)

B/Day 17/6/91

SEAN VAN ZYL

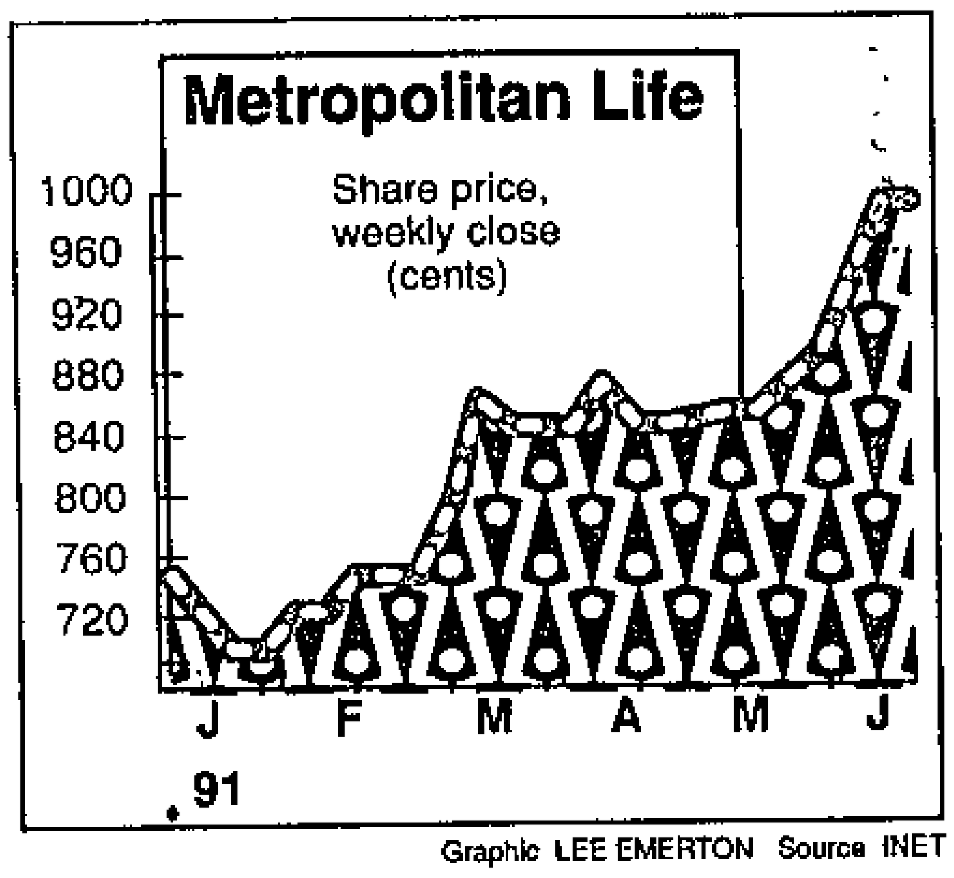
SANLAM's investment arm Sankorp was planning to sell an undisclosed portion of its 51% stake in Metropolitan Life to various financial institutions, Sankorp CE Marinus Daling said at the weekend.

He declined to confirm market speculation that the deal could be valued at just under R95m, representing about 22% of Metropolitan at the current share price of 1 000c. Speculation is also that Metropolitan will announce a rights issue after the Sankorp sell-off.

Daling said shares would be placed over the next two weeks and that Sanlam would still be left with the controlling stake in the life company. Sankorp and its parent Sanlam hold about 73% of the company's issued share capital.

Sankorp has undertaken a major restructuring of its investments, including Federale Volksbeleggings and the unbundling under way at the Tradegro Group. The possibility of the Gencor group unbundling has also been raised.

However, Daling said that the placing of the Metropolitan shares had "nothing to do with an unbundling of Sankorp", and was purely to improve the marketability of the life assurer's share.



Graphic LEE EMERTON Source INET

An industry source said Metropolitan and Sankorp had scheduled appointments with financial institutions, but had not disclosed the placing plan to them. Further details would be released in a media statement shortly, Daling added.

The source indicated that the successful selling of the Sankorp-held Metropolitan shares would determine whether or not the life company went ahead with a strongly rumoured rights issue.

☐ To Page 2

Sankorp

B/Day 17/6/91

(58)

☐ From Page 1

Metropolitan issued a cautionary announcement earlier this month stating that its directors and controlling shareholders were "evaluating alternatives" regarding the capital structure of the company.

Metropolitan's MD Marius Smith said he was unable to confirm the pending rights issue until shareholders were informed.

Market rumours suggest, however, that Metropolitan has been forced into raising additional capital to relieve "new business strain" — it needed more capital to cope with all the business coming its way

Smith said while Metropolitan's new business growth in the last financial year was about 26%, the company was not experiencing any financing problems.

Market speculation also indicated that the part-disposal of Sankorp's stake in Metropolitan would be offered at a discount to the ruling share price — on the provision that the buyers would take up additional shares through the rights issue.

Smith said that an announcement outlining full developments would be published by the end of this month.

Absa plans to rationalise dealing rooms

GRETA STEYN (58)

ABSA is to rationalise the UBS, Allied and Volkskas dealing rooms into one with Volkskas spearheading the group's funding exercise. B|Day 17|6|91.

The banking group is expected to announce the rationalisation and the new group appointments within the next month. It is believed Volkskas's current treasury chief Malcolm Chapman will head up the domestic and international operations. He will report to current Volkskas MD Danie Cronje. Talk among staff is that the Volkskas dealing room will be used and the others dismantled.

The UBS's Fanie Leach will look after the money market while Volkskas's "Smittie" Smit will head Absa's international banking services, which will also be based in the Volkskas building.

Group corporate banking will be headed by the Allied's Angus Prentice.

Absa's move to merge the treasuries, international banking and corporate banking echoes that of Bankorp. The latter merged TrustBank, Senbank and Bankfin's funding operations. Top bankers face a loss of status as there are three candidates for every key position.

An Absa source said the new group appointments had been decided after interviews by the executive committee.

It is not yet clear whether the group will cut down on dealers and on expensive Reuter monitors, as a banking group of Absa's size will need a large dealing room. But Absa staff numbers will be trimmed in general.

Credit demand slows

CT 17/6/91

Own Correspondent

JOHANNESBURG. — The recession is now striking areas like retailing, bank credit and manufacturing production, all of which were virtually unscathed last year.

Statistics show retail sales are in a downtrend and banks report credit demand has slowed in recent months.

Buoyant private consumption expenditure last year was reflected in steady growth in retail sales and credit demand.

But the downturn in both areas in the first quarter of this year shows that high interest rates and recessionary conditions have at last curbed consumer spending.

Although month-on-month retail sales in May 1991 grew in real terms, monthly retail sales figures are volatile and a distinct downward trend, established in the last quarter of 1990, is now well entrenched.

Debt-financed expenditure has been a particular feature of the current recession but this now appears to be slowing.

Figures released by the Reserve Bank show annual growth in bank credit extended to the private sector eased to 19,5% in March, after a turnaround in February when credit extension again topped 20% year-on-year.

This may have been a technical increase due to the implementation of the new Deposit-Taking Institutions Act in February.

First National Bank senior GM Jimmy McKenzie said growth in credit demand over the past two months had been modest.

United senior GM marketing Tienie van der Merwe said demand for hire-purchase finance had fallen off in line with Reserve Bank measures to curb credit demand.

But demand for personal loans and overdrafts had been quite strong given the current economic conditions.

Manufacturing production volumes fell by 2,3% month-on-month in February 1991 and wholesale sales dropped by 1,4% in March.

Manufacturing production has fallen 4,2% since the onset of the recession in the first quarter of 1989.

Nearly 50% of the industry's production has fallen by as much as 20% over the recessionary period, and about 35% showed increases of up to 20%, says Nedbank chief economist Edward Osborn.

Star 18/6/91

Insurance could hinge on Aids test

By Shareen Singh 58 (92)

Compulsory Aids testing for life insurance policies could become a prerequisite in the future, according to the Life Officers Association.

Most insurance companies recently started "requesting" their clients to undergo Aids tests for life policies worth more than R50 000. IGI requests testing for over R180 000.

If the client refuses to undergo the test, he would not be refused insurance, but the policy would have a clause waiving the right to claim if the client died of Aids or Aids-related diseases.

But death certificates are almost always vague and do not state whether the patient has died of a disease related to Aids.

To establish whether the disease was linked to Aids, further medical evidence would have to be required from medical personnel who treated the client at the time of death, according to Metropolitan's senior claims assessor J Miller.

Ineffective

R Geary-Cooke, executive director of the Life Officers Association, believes the Aids exemption clause is ineffective.

It would be extremely difficult to prove that the client had died of Aids-related diseases without medical tests, and claims usually arrived after the client had been buried, he pointed out.

Insurance companies had to depend on medical personnel to supply this information, which might not be correct.

Doctors might not want to divulge that the patient had died of pneumonia as a result of Aids for reasons of not wanting to upset the family of the deceased or other such reasons, Mr Geary-Cooke said.

Insurance companies would in time realise that the Aids exemption clause did not work and they would be left with two options for their clients — compulsory Aids testing or no insurance, he said.

He added that it was an advantage to the client to undergo an Aids test.

If the test proved negative and the client contacted Aids at a later stage, the insurance company would be liable to pay the claim.

However, most potential clients objected to Aids testing because most insurance companies did not insure those who were HIV-positive.

Old Mutual Properties a developer and tenant

OLD Mutual Properties is active in the commercial and industrial property market, not only as a developer but also as a tenant.

Old Mutual Properties' major office development, the R100m project to provide 26 000m^2 in Cape Town's CBD, is due for completion in 1993.

In Maritzburg, about half the 6 760m^2 to be created in Longmarket Street is to be occupied by Old Mutual.

In Johannesburg, Surrey House, a 10 000m^2 office development on a site bounded by Fox, Rissik and Commissioner streets, is due for completion late in 1992.

(58) Suppl. Bus. Day 18/6/91

Interest

Property investment manager Ian Watt says: "There is also interest in the five-storey office block built by Giuricich Bros as an adjunct to the retail complex in Rivonia."

Old Mutual Properties also has plans to develop an office block in Pretorius St, Arcadia, Pretoria, which will start when more than half the building has been pre-let, he says.

In the industrial sector, more than 50% of the space in a development being built by Grinaker at New Germany has been let, with Ferodo signing for 4 100m^2, Golden Products for 1 600m^2 and Dancor Plastics for 2 500m^2.

"Also in the Durban area is a development under way — which will include an office block of 1 000m^2 — on a 9 600m^2 site in Transport Drive, Prospecton, for AutoCarriers," Watt says.

A further development of 10 000m^2 on an adjacent site and to a potential tenant's requirements is under negotiation.

Expanded

Work has started on the first phase of a R21m development on a 10ha site adjacent to Old Mutual's business park in Hermanstad, at Roseville, Pretoria.

"Old Mutual Properties has also expanded its industrial holdings elsewhere in the PWV.

"The addition of 4 800m^2 of office space at the Isando Business Park was undertaken in response to demand for offices in the area, with much of the new space being let to existing tenants," Watt says.

In addition, the Old Mutual Industrial Park at City Deep has gained a neighbour in the form of a development providing a rentable area of 17 000m^2, configured in units from 850m^2 to 5 000m^2.

Delays by insurers risk Registrar's ire

(58)

B Day 18/6/91

SEAN VAN ZYL

THE troubled short-term insurance industry is dragging its heels in providing the Registrar of Insurance with financial information required to confirm solvency.

Industry sources say Registrar Piet Badenhorst has warned insurers that he could send in his own inspectors to extract information if they do not get a move on.

Badenhorst was not available for comment, but a spokesman for the Registrar confirmed there had been delays in getting information.

Concerned that operators in the short-term sector may be taking strain on their solvency margins — due to the rate war and large underwriting losses — the Registrar has instructed companies to submit quarterly trading returns until further notice. As a result, insurers have within one calendar month following each quarter to submit their returns.

If Badenhorst appointed his own inspectors to investigate the financial wellbeing of the companies concerned the insurers would have to bear the cost, he apparently told insurers.

Insurers said, however, that the four-week deadline on the returns was not sufficient to collate the necessary information. They said that the required figures had to be collected from different sources, such as brokers, before being input as a whole on computer systems.

As a result, insurers have called for the return deadline to be extended by an additional 14 days to six weeks.

South African Insurance Association CE Rodney Sneeuberger said that a two-week extension on the returns would definitely relieve some of the pressure on insurers. He added, however, "if insurance companies' administrative systems were in order, they would be able to meet the deadline — the Registrar is fully entitled to request the information".

The Registrar's spokesman confirmed that a request had been forwarded to the board, which would likely be passed on to the short-term Advisory Committee for consideration.

Sneeuberger noted that if insurers were not rushed into collating their returns, a more reliable and accurate flow of information between companies and the FSB would result.

A more acceptable and optimum deadline on the submission of returns should be jointly agreed upon by the industry and the authorities, Sneeuberger said.

Stability of long-term insurers beats recession

(58)

WILLIAM GILFILLAN

LONG-term insurers' shares are an attractive investment during a recession as these institutions are less sensitive to the business cycle, analysts say.

This view is well supported by the sector's performance as record highs are being achieved on the JSE.

People are loathe to cancel life insurance policies, and earnings from life assurers have been stable as monthly contributions continue to be paid in.

The insurance index has increased 15% to 2 143 from 1 870 in the past month despite the poor results recently announced by short term insurers. The index is represented about 80% by life assurance groups with short term insurers making up the other 20%.

Shares in the Liberty group have rocketed. In this last month Libvest has increased 24% from 585c to 725c a share and Liberty has hit a new high with a rise of 14% from 3 150c a share to 3 600c. With the Liberty group comprising at least half the index, the upward trend in the index is largely explained by this.

Southern Life, comprising about 20% of the index, has also been in demand and in the last month the group has risen to a new high of 1 800c a share from 1 525c, up 18%.

Shares in Momentum have gone up by 27% to 375c a share from 295c in the past month, helped by speculation that the Rembrandt group is to rationalise its insurance interests. This follows on from Rembrandt's successful streamlining of its banking interests through the formation of Absa.

Shares of some short term insurers have also being attaining record highs. The rising level of violence and increasing crime rate do not seem to have stopped Mutual & Federal (M & F) and Guardian from breaking new highs of 1 600c and 1 750c a share respectively.

B | Day 18/6/91

Volumes

M & F's results for the six months ended December 1990 showed taxed profits down 5,3% while taxed profits at Guardian were 11,4% lower at the December 1990 year end.

Part of the reason for this apparent anomaly is the shares in M & F and Guardian are tightly held. Old Mutual holds more than 70% of M & F while the Liberty group has a large stake in Guardian. The price has been pushed up on small volumes.

Insurance companies hold large equity investments and can be regarded as "semi-investment trusts", says a spokesman at Guardian. Therefore the recent rise in industrial shares has increased the net asset value of insurance companies.

Cost of insurance could rise 30%

B/Day 19/6/91 (58)

LINDA ENSOR

CAPE TOWN — Consumers can expect insurance premium increases as high as 30% in some cases in the next six months as adjustments are made for VAT and loss-making accounts.

Commercial Union MD John Kinvig announced yesterday that the rates charged by the company for insurance policies for private motor vehicles would increase on average by 17,5% from July 1 and by 12,5% for household policies, with sums insured in addition being increased by 18%.

He said these increases took account of the expected impact of VAT. Unless there was a further deterioration in the incidence and cost of claims, the higher premiums would bring Commercial Union into a breakeven position by its December year-end.

Estimates of the effect VAT will have on premiums range from 6%-8%. The full 12% will not be passed on as the cost of claims will be recoverable as input credits.

SA Eagle MD Peter Martin believed that VAT, and the high level of both claims and motor repair inflation, would see some companies increasing premiums by from 20%-30% in the next six months.

He said the decision by insurance companies to increase premiums in October beyond the impact of VAT would depend on whether their accounts were running at a loss. He felt that if an account was running profitably, VAT would require an 8% premium increase.

"It is a costly exercise to put through premium increases and companies may well take advantage of the introduction of VAT to make an adjustment for their loss-making accounts. The whole method of billing clients will change under VAT," Martin said.

He said SA Eagle would only make an adjustment for VAT in October if its account was running at a loss.

Santam MD Oosie Oosthuizen said any decision by Santam on premium increase would depend on underwriting results achieved in the year to end-September. He estimated the VAT charge to be about 6% and said Santam's premium increase would probably be an average of about 15%-20% across all categories of insurance. He would prefer to have one increase by the end of the year which would include the VAT charge and the rise in the cost of claims.

Kinvig believed the personal lines business would stabilise, but Oosthuizen did not think there would be any improvement in underwriting results and many companies were likely to just break even.

He felt the claims experience had not improved over last year when the size of a claim rose by about 24% and the incidence of claims by about 15%. The claims experience for housebreaking, burglary and car theft was still deteriorating.

Assurers asked to aid growth

B/Day 19/6/91 58

LIFE assurers had to work with government, business, organised labour and other politicians to ensure funds were invested in a way that promoted continued economic growth in the economy, said African Life chairman Adrian Arnott.

Speaking at the company's general meeting this week, Arnott said life assurers had an important responsibility to ensure continued growth in the economy.

"Long-term economic growth is essential if attempts by government to remedy devastation caused by the apartheid legislation on the lives of South Africans are to be successful."

Commenting on the the effects of sanctions, Arnott said if SA were to be successful in attracting investments from abroad, particularly against stiff competition from Eastern Europe, it would need to demonstrate that all in SA were committed to the new dispensation.

Speaking on AIDS, Arnott said that research had shown that education was still the best way of containing the disease.

"While government has a major role to play in this regard, it is vital that responsible leaders from all sections of the community voice their concern and urge that their constituents heed the warnings." — Sapa.

Interest rate cut of 1% predicted

Own Correspondent

EAST LONDON. — Nedbank predicts that the Reserve Bank will lower the interest rate by a further 1% by the fourth quarter of this year.

The present rate is 18%.

Analyst Mr Kevin Lings of the bank's economic unit told a seminar here yesterday that there would be heavy pressure on the Reserve Bank to drop rates over the next few months if the inflation rate did not show a substantial decline.

The demands would be based on the claim that the higher interest rates were not succeeding in lowering inflation.

He forecast that the economic growth rate for this year would be 0,5%, which would improve to 2% in 1992.

It was imperative that the manufacturing sector showed real growth, he said. Production capacity had declined over the past few years and investment in equipment would be a first step towards recovery.

Sasfin pioneers bid to net R250m

(58) B/Day 20/6/91

ROBERT GENTLE

LISTED instalment finance company Sasfin, which funds assets like office automation equipment for client companies, is to raise R250m through the issue of 20-year floating rate debentures backed by its instalment finance book.

The first R30m tranche has been successfully structured and will be listed on the JSE on June 25. Rating agency Republic Ratings has given the issue an AA, which usually denotes good quality investment grade paper.

Instead of a rights issue or securing a bank loan, Sasfin has chosen a novel approach to finance itself, breaking new ground in the country's securitisation industry.

Securitisation, the process whereby a company raises funds by converting certain of its assets into negotiable securities, started in SA in 1989 when United Building Society securitised R250m of its mortgage book.

The resulting mortgage-backed debenture issue, known as MS 101, was placed with leading institutions.

The Sasfin issue is the second such asset-backed securitisation and has been structured and underwritten by Discount House Risk Management (DHRM), which also handled MS 101.

"Sasfin will now be able to grow its instalment finance business without resorting to increased equity capital or limited bank funding," said Sasfin MD Roland Sassoon.

The R250m target could be reached in three to five years, although there was no set time frame, he said. It depended on the economy, Sasfin's rate of growth and the quality of future instalment agreements.

The assets Sasfin is securitising are short-term receivables with contract life spans of up to 60 months. They cover items like fax machines, photocopiers and telephone systems.

The high quality contracts are backed by Credit Guarantee Insurance Corporation (CGIC). Audit and accounting firm Price Waterhouse acts as trustee, vetting all contracts.

DHRM securitisation consultant Annelies Jacobs said it was the quality of the rental agreements and the additional insurance against default that gave the resulting debentures their high AA rating.

She said the Sasfin securitisation issue conformed sufficiently with guidelines laid down by the Reserve Bank to receive full approval.

The controversial clause requiring all securitisation issues to be routed through a registered deposit taking institution was adhered to by using Mercantile Bank as an intermediary. Mercantile received an upfront, one-off fee, said Jacobs.

"We see this as an innovative step towards the securitisation of many other types of assets," she said.

School cuts to continue

SB

C.T 19/6/91

Political Staff

THE Minister of Education and Culture in the House of Assembly, Mr Piet Clase, has dashed hopes that the rationalisation of schools in Natal and the Cape will be stopped.

He said, however, that the programme to close 33 Natal schools and terminate about 680 teaching posts might be amended "if circumstances allow".

Mr Clase was responding to a question by DP MP Mr Roger Burrows, who asked whether the recommendations of the Education Renewal Strategy (ERS) would lead to a change of mind.

Johannesburg yesterday. He s... ity in halting violence, which h... joint ventures, including the fe...

FNB analyst optimistic

58

PETER GALLI

SA looks set to enter an economic upturn lasting at least three years, according to First National Bank economist Cees Bruggemans.

Speaking at the national convention of the SA Property Owners' Association (Sapoa) in Durban yesterday, Bruggemans backed Finance Minister Barend du Plessis's statement that the upswing should start later this year. BDay 20/6/91

Bruggemans said business optimism was justified on several grounds — foreign reserves were getting healthier and government would ensure that the economy was in an upswing when voters were asked to decide on a new constitution in two to three years' time.

He estimated government could now call upon reserves of R20bn to sustain an upswing.

NBS buys back boycott houses for R10 each

ARGUS 20/6/91

(58)

By EDWARD MOLOINYANE
Staff Reporter

THE Natal Building Society has bought back 17 Khayelitsha houses for R10 each at a sale in execution after the buyers fell behind with their instalments because of a bond repayment boycott.

The two and three-bedroom properties were auctioned by the messenger of the court at Wynberg yesterday.

There were no private bidders and the Natal Building Society bought all the houses for R10 each

The NBS sold them for between R25 000 and R32 000 more than 18 months ago.

A spokesman for the NBS said the houses would be resold individually But it was difficult to say what the price would be at this stage.

The sale of the properties, mostly in Town Two, Village Three, follows a year-long boycott on bond payments by more than 1 000 buyers who complained the houses were of poor quality and who called for prices to be reduced

The boycott was called off in April.

A society spokesman said six of the original 23 buyers had approached the institution after the publication of notices of sales in execution and made arrangements to pay.

He said that in "several cases" original buyers no longer lived in the houses and had left them with relatives, who had also not "made any attempts" to pay

Referring to the present occupiers, the spokesman said: "Strictly speaking they should not be in those houses without paying. It has not been decided what to do, but obviously steps will be taken."

Asked how much they would be sold for now, he said it was "difficult to say"

NBS regional general manager Mr Kinsley Loney said recently that in spite of the lifting of the boycott, payments were "still not forthcoming from a large proportion of borrowers".

Some of the boycotters said after the publication of the notices of sales in execution that they had been left in the lurch by the "comrades" in the civic association, which had spearheaded the boycott.

They said they did not even know that the boycott had been lifted because the "comrades", who had been negotiating with financial institutions and the developers for a year, had not told them of developments.

PENSION FUNDS FM 21/6/91

MUSCLING IN (58)

Against a tide of lay-offs and other cost-cutting exercises, it is pleasing to see at least one property organisation advertising for new staff.

Neville Berkowitz & Associates, well known for its monthly *Property Economist*, is seeking a property investment manager.

The firm's expansion is being facilitated by its appointment, in late May, as property consultant to a consortium of pension funds looking to invest R900m a year in nonresidential property.

Berkowitz will not disclose which pension funds are involved, maintaining that the information is confidential. Nevertheless, the move is significant in that it has placed him in the league with major SA property purchasers. It will also make competition for increasingly scarce good property investments in the country that much tougher, says one institution.

Considering that Berkowitz has been advising pension funds on how best to invest their money for many years, it was perhaps inevitable that he would come to play a more direct role. Word is that he intends to trade in property to earn the highest possible immediate returns, as well as seek out a mix of long-term investments.

Berkowitz will be doubling his staff of five and moving to larger premises in Rosebank, Johannesburg, to handle the new business. He plans to establish a national network of specialists he can draw on for property administration, valuation and quantity surveying.

While he does not intend to undertake developments himself, he will provide the long-term finance for them. ■

INSURANCE

GA DIGS IN

FM 21/6/91

(58)

There is a new twist in General Accident's controversial claim involving now-liquidated RTS Techniques & Planning. Having forced an in camera hearing under Section 417 of the Companies Act a fortnight ago, attorneys for RTS were this week planning an application in the Supreme Court for the insured amount plus damages.

Attorney Peter Soller of Rene Kruger Inc confirms that an application is being prepared. A GA spokesman says his company is unaware of any new developments.

The case arose from a claim of more than R2m after a fire at RTS in March. GA investigated the claim, using loss adjusters and a forensic expert. RTS took the unusual step of appointing its own loss adjusters. The claim has so far not been paid, nor has it been formally repudiated.

Advisers to RTS have claimed that had even interim payments been made, RTS could have continued trading. GA has not publicly disclosed its reasons for not settling.

The amount of the claim does not seem to be the only reason for the dispute.

Nor, despite early attempts by the RTS team to link the problem to GA's underwriting losses, is there any question about the ability to pay.

At the time of the 417 hearing, before the Registrar of Insurance was to be called as a witness, GA volunteered a guarantee for R2,1m, which was later raised to R3,1m.

From correspondence between the two, it seems that two issues could be contested. The first is ownership.

At one stage during 1990, an agreement of sale was reached over RTS. It was subsequently cancelled but there seems some doubt about the ownership of the firm when the insurance policy was issued.

The second raises a principle of insurance and is more complex.

The correspondence discloses a suspicion by GA that RTS was technically insolvent when the policy was issued and also when it was renewed at RTS's request, increasing the sum insured a few weeks before the fire.

If it was insolvent, what would be the effect on the insurance contract?

Much of the argument has been about access to the financial records of RTS. Bernard Cutler, MD of the liquidated company, maintains that all relevant records were available from mid-April, but it seems that some records were retained by the firm's accounting officer until his account had been paid.

GA has since offered to pay R5 000 for the accountant to finalise the books. Cutler retorts that he suggested this arrangement at the outset, before it became necessary to liquidate RTS.

The parties now seem to occupy entrenched positions and an out-of-court settlement is unlikely.

Bryan Deans

METROPOLITAN LIFE (58)

STANDING APART FM 21/6/91

Sankorp is making further changes to its "strategic" investments. These are essentially the companies which the assurer controls and they are usually large operations. A problem now being addressed at Metropolitan Life (Metpol), not one of the largest players in the life assurance market but a company which has grown steadily, is limited tradeability of the shares.

Sankorp is expected to reduce its holding of the ordinary shares signficantly and a rights issue is also seen as a strong probability. Both these moves would allow Metpol more flexibility to pursue its objectives, away from Sanlam's apron strings.

Reasons being mooted in the market include speculation that Sanlam is seeking to reduce the number of companies it controls, to pre-empt any temptation a future government may feel towards nationalising the group along with its subsidiaries. It has also been suggested that, as most of the business Metpol writes is for blacks, the company should distance itself from Sanlam.

But Metpol MD Marius Smith rejects such ideas. He says it was in fact Metpol that approached Sankorp with the plan, and the motivation was simply that too many Metpol shares are held either by Sankorp or by funds associated with Sanlam, with too few other investors involved. Sankorp holds 72% of the shares and another 10% is held by Sanlam/Sankorp-controlled portfolios. Only 8m of the 44,5m issued ords are available to the public and other institutions.

It is planned, says Smith, that Sankorp's Metpol holding will be reduced to below 50%. Shares will be placed with various organisations unconnected with Sanlam or Sankorp. He adds that Sanlam has never exercised its right of control, even when Metpol has taken decisions in competition with Sanlam — implying that investors

FM 21/6/91 (58)

should not be concerned about the connection with Sanlam which will continue to exercise effective control.

A decision on a rights issue will depend on how the plan to place a portion of Sanlam's shares is received by the institutions. An official announcement is to be made on Tuesday.

Gerald Hirshon

FM 21/6/91 (58)

SASRIA FM 21/6/91 (58)

R2,5bn FOR GRABS?

Sasria (SA Special Risks Insurance Association) now has an asset pool of about R2,5bn. Some insurance specialists, mainly brokers, are beginning to query the continued need for Sasria which was formed when political risks were becoming too dangerous for the primary market to handle. There is also speculation that the massive asset base — which has no clear ownership — is looking increasingly attractive to any government which sees it as up for grabs.

Security at shopping centres (largely a farce, anyway) is disappearing. This is seen as a sign that political unrest — a *major* insurance risk — is also diminishing.

Nothing could be further from the truth, argues Sasria MD Rodney Schneeberger. Though Sasria's asset base has risen by R700m in the past 15 months, he points out that claims were at record levels last year and are still high. Schneeberger, also CE of the SA Insurance Association (Saia), has often been reticent about Sasria's intimate financing details, though the information is available to anyone who consults the STI 1 returns to the Registrar.

But Schneeberger, who is expected to doff his Sasria cap in January when the Sasria and Saia administrations are separated, is supported by Sasria chairman and Santam CEO Oosie Oosthuizen. He argues that Sasria is only 25% funded by the international yardstick for political risk cover.

Sasria has maximum exposure to any one risk of R200m (a fraction of the cost of a modern power station). By the international standard that no more than 1,5% of a fund should be exposed to a particular risk, it should have assets of at least R10bn, Oosthuizen says, adding: "Claims can be large. The Ciskei riots last year cost Sasria R75m."

The Financial Services Board, to which Sasria reports, is staying out of the debate. Privately, a board official speculates the time to disband Sasria will come when commercial insurers are again prepared to accept political risk. If and when that happens, Sasria could be converted to a reinsurer.

Prestasi broking group head Jan Erasmus believes the fund should be applied to health, housing or education — "instead of lying there gathering interest." Erasmus says this would be a positive sign from the insurance industry about SA's future.

Don Gallimore of broker PFV says it's premature to dissolve the fund. It's always possible, he argues, that militant leaders will emerge to introduce more, rather than less, political risk. An option he considers would be to maintain Sasria cover at almost zero rates for the time being.

That would at least deflect attention from its mushroom growth and perhaps deter predators who might wish to use the fund for purposes other than insurance. He also observes that the commercial market insisted on nonpolitical riots being included in the Sasria package, so a premium remains necessary for that element of cover.

MIB director Rod Pearson goes further. "Disbanding Sasria cover at this stage would be unacceptable. Perhaps the debate should be whether Sasria should be repositioned as reinsurer to the local market. That way many problems could be addressed — such as having to issue separate coupons, ease of administration and the ability to follow normal policy procedures."

Pearson is emphatic the fund was set up for a specific purpose. As for size, "even the Melamet Report last year, when the fund was R1,8bn, felt it was not yet adequate." ■

BANKING FM 21/6/91

BRANCHING OUT (58)

Local banks are taking advantage of the more favourable international climate to move offshore. Latest announcements come from First National Bank (FNB) and Nedbank. FNB will enter a joint venture in Malawi and Nedbank has applied to open an office in Taipei.

FNB will have a 30% stake in the new company in Malawi, to be called CBM Financial Services. It will concentrate on instalment credit — a market which is growing rapidly, says senior GM Viv Bartlett.

Other shareholders in the venture are the Commercial Bank of Malawi (40%) and the National Insurance Company (30%). Jan Klaasen has been seconded from FNB industrial division to start the operation.

Bartlett says Malawi was chosen because of its 4% plus growth rate, US$1,7bn GDP and its economic and political stability.

Nedbank MD Richard Laubscher says its strategy has always been to go where the clients are. "Trade volumes are increasing to and from the Pacific Rim," he says. Consequently, Nedbank will continue to expand in these areas, starting with an office in Taipei. It will be run by Brian Calligan, formerly of the Hong Kong subsidiary.

The two SA groups which do not have branches in London, Standard Bank Investment Corp and FNB, could change the status of their representative offices. Volkskas, Bankorp and Nedbank already have branches in London. Now both Standard and FNB are considering applying for licences. Bartlett says the Bank of England has become more receptive to applications by SA banks.

"If we opened a branch in London, it would probably be a subsidiary," Bartlett says.

Nedbank has had a branch in London since 1906, but growth has been constrained by restrictions imposed with the debt standstill in 1985. Laubscher says Nedbank has an extensive correspondent network.

Smitty Smith, new head of Absa's international division, says the Volkskas London branch, established in 1981, was not constrained by the debt standstill. It was entirely London-driven, with no huge outstanding loan book to be funded from SA. So it has been able to operate as a full branch.

Bankorp GM Chris van der Straaten says its London branch offers the full range of trade products, including documentary business and trade finance. It deals in foreign exchange, derivatives, and money and capital market instruments.

The advantage of a branch is that it can offer the full range of banking services, including trade finance, Euromoney loans, spot and forward currency dealing, capital and money market dealing, as well as taking deposits and making advances. A representative office can act only in an advisory capacity and must channel business to the parent.

All banks have plans to service the African market now that most of the continent's countries accept SA's political reforms as irreversible. Standard's Manfred Schütte says its long-term strategic objective is to move into a number of African countries. "Obviously we would have to judge them on their viability," he says.

Standard already has interests in Africa. It has had subsidiaries in Namibia and Bophuthatswana for years, three years ago it established the Union Bank of Swaziland and a month ago it won approval for a banking licence in Botswana.

In addition to its new Malawian operation and a subsidiary in Namibia, FNB will establish a subsidiary in Botswana. A licence was obtained at the beginning of this year.

Nedbank's Derek Muller says Nedbank has formed an African division at head office and "has strategic joint ventures with players in Africa." In addition, Nedbank has a wholly owned subsidiary in Namibia — Namibian Banking Corp.

The big five banking groups, bar Volkskas, already have subsidiaries, branches or representative offices in countries on the Pacific Rim and plan to extend client bases.

Though domestic banks have retained links with the rest of the world, SA has been almost isolated for six years by credit sanctions and the debt standstill. When official sanctions finally fall, banks' first tentative steps out of the cold are likely to become a scramble to regain lost ground.

Heather Formby

The debt that can't be cleared

W mail 21/6 - 27/6/91

CRITICAL CONSUMER 58

Pat Sidley

TONY LEON in parliament the other day, referring to white collar crooks who inhabit boardrooms, referred to the "unacceptable face of capitalism". He believed their antics might give capitalism a bad name and more impetus to those who saw nationalisation as an answer.

He was not referring to ordinary banking practices — but perhaps he should have been.

Try these policies, for instance.

A customer of First National Bank who receives foreign exchange at the bank is obliged to fill in a form. The latest version contains the following gobbledegook: "I ... indemnify and hold the bank harmless against any non-payment or delay in payment thereof and for any costs incurred by the Bank of whatsoever nature and however arising from such non-payment or delay in payment."

The rough translation: "If the bank messes up and the customer loses money as a result, the bank is not responsible."

Customers who query this are told it is required by the Reserve Bank. This is a distortion. The Reserve Bank requires information about foreign exchange deals. It does not require a customer to indemnify an individual bank against its own mistakes.

Of course, all banks use indemnifications— most consumers with "stop orders" on their current accounts will know if the bank makes a mistake it will not humbly apologise and set the record straight. It will be the consumer's problem.

Bank charges — which no reasonable consumer can work out without an actuary in residence — are another problem.

A customer who queries the excessive-looking monthly charges and is told by a manager, "You write too many cheques, some of them for a lot of money. You should open accounts or use your First Card" (First National's Visa credit card), can only gasp in horror.

The cheque book is used presumably to avoid carrying large wads of cash. In any event, a customer who cashes large wads is charged for this too. And opening shopping accounts in the current economic environment is stupid.

This same customer discovers a week after this conversation that the bank offers free banking (that is no charges on transactions) on current accounts with more than R750 in them. His account is always above this level. The bank also offers another option to current account holders: if they have money in the account they will be paid a small amount of interest on the balance.

This customer, however, has never seen any interest payment, and has not been advised that he qualifies for free banking anyway.

After many queries, a flustered staff produces reams of computer printouts in order to offer the following explanation: The bank charges are so high that they cancel out automatically the small amount of interest paid on the credit balance.

Although the bank slipped up and never offered the free banking alternative, there is no apology and no explanation, let alone a rebate for the charges all those months.

So the customer reaches for his trusty bit of plastic — the First Card — and finds it is no picnic either.

In the credit card world, things are contrived to ensure that customers will always pay interest and not be able to clear their whole debt.

First Card spokesmen always tell journalists (as they have told me several times) that this is not so and that they prefer to have customers who are not in debt. But closer to the truth is what they tell their customers: "Interest is our business. We cannot survive without it" the customer complaints manager told a customer querying his statement.

For any ordinary First Card customer (and there are millions) the figure at the bottom of the monthly statement which says "total" does not give a total. Close scrutiny of the statement will also not reveal a real total. There is no figure reflected which, if paid by a certain date, will cancel the entire debt to the credit card company (excluding any new debts incurred on the card after the statement is posted) and thus allow you to avoid paying interest.

●The statement as contrived does not show the interest which you will have to pay, but cannot see accruing, because interest is accruing while the statement is in the post.

●The statement does not record the total outstanding, including the interest, on any amounts which may have been recorded on the budget account. This facility on the card is one which allows the consumer to pay off the debt over several months at 28,5 percent interest a year. The total that a customer owes on the budget account is not reflected anywhere on the statement.

It is a legal requirement that the consumer be allowed to pay off the entire debt, and all interest owed, before the final deadline. And First Card customers can do this — if they can find out what the total is.

But the problem does not end there.

If money is paid into the consumer's First Card account, it is automatically credited to the current (or non-budget) facility.

For consumers who do not use their budget facility, this is not a problem. For those who do, however, they may find that the payment made into the account leaves the bank owing them money on the current account, and paying them interest at the rate of 15 percent, while they are still paying the debt on the budget account and paying the bank interest on that amount at 28,5 percent.

Repossessions on the rise

SEAN VAN ZYL

WHILE bank repossessions were on the rise, lower interest rates — expected in the first quarter of 1992 — should signal a significant drop in bad debts, Natal-based NBS assistant GM finance Paul Leaf-Wright said yesterday.

Leaf-Wright said the value of NBS repossessions more than doubled to R76m in the financial year ended March 1991, compared with the previous year's R34m.

However, he noted that NBS's actual write-off of bad debts would account for less than R500 000.

He expected bank repossessions to continue increasing this year.

58

But he added that an economic upswing, expected to start by the end of the year, would bring the necessary relief to borrowers.

In the annual report, NBS' MD John Gafney said the poor state of the economy, coupled with high unemployment, had weighed heavily on borrowers' ability to meet their commitments. This had caused a rise in the number oof repossessions.

NBS has earmarked R27,9m as provision for bad debt accounted for the last financial year.

Orange Grove school goes to third party

Argus 22/6/91

PRETORIA. — Johannesburg's "whites-only" Orange Grove Primary School, earmarked for occupation by black pupils under the aegis of anti-apartheid activists, has been allocated to the SA Jewish Board of Education.

This was announced by the Minister of the Budget, Welfare, Housing and Works, Mr Sam de Beer, in Pretoria yesterday.

The Alexandra Education Co-ordinating Commitee (AECC) earlier this week announced its intentions to transfer pupils and teachers from the township's overcrowded Skeen Primary School to the closed-down Orange Grove premises in defiance of the government.

In addition, the National Education Co-ordinating Committee, in an open letter on Thursday, challenged Education and Training Minister Dr Stoffel van der Merwe to support the planned takeover of the school.

Part of the building was being used for a pre-primary school under the Transvaal Education Department, Dr van der Merwe said in reaction yesterday, indicating that Mr De Beer would announce how the rest of the building was to be used.

Eight empty primary schools have also been allocated to other administrations and institutions, Mr De Beer said.

Purchase prices or conditions of rentals of the respective schools would be determined by mutual agreement, Mr De Beer added.

Meanwhile, in reacting to NECC concerns about the state of black education in the PWV region, Dr van der Merwe said DET schools in the Johannesburg area were "theoretically" overstaffed by 527 primary school teachers and 403 secondary school teachers.

"The region has a very favourable teacher-pupil ratio of 1:35 in primary schools and 1:31 in secondary schools, if compared to the departmental norm of 1:40 and 1:35," he said.

More than 690 000 text and prescribed books, at a cost of R5 million, were supplied to schools in January this year, according to requests by school principals. Stationery was also supplied in this manner.

Dr van der Merwe said vandalised schools were repaired to the sum of R1,27 million in the past financial year, while R600 000 was spent on the repair of toilets and water supply. — Sapa.

Reserve Bank to keep tight rein

58

ARGT 12/6/91

From SVEN LUNSCHE

JOHANNESBURG. — The Reserve Bank is determined to keep a tight rein on monetary policy in its endeavour to reduce inflation.

The Bank's deputy general manager, Economics, Bernie de Jager, said at a conference yesterday that inflation distributed income away from the poor to the rich and that it was in the interest of a more equitable economic system that the inflation rate be lowered from its current high levels.

"Monetary policy could do the job alone, but a co-ordinated effort is required to limit the effects of such policy," Mr De Jager said at an inflation debate organised by the Association of Corporate Treasurers.

He called on management and unions to take account of the money targets set by the Reserve Bank when negotiating wage demands.

Mr De Jager said that one of the most crucial aspects of the current anti-inflation campaign was to affect expectations that inflation would inevitably stay at double-digit levels.

For this reason alone the Reserve Bank would have to remain persistent in its actions on inflation and assure the public that inflation would remain the predominant target of monetary policy.

Furthermore, the fiscal and monetary authorities must co-ordinate their policies to achieve a lower inflation rate, something which has only recently been in evidence.

Professor Brian Kantor, the Director of the UCT School of Economics, echoed Mr De Jager's sentiments.

"If we drastically relax interest rates now, we would be giving up hope of ever bringing the inflation rate below 10 percent.

"This is most probably also the last chance we have to change expectations that such a drop is possible," Professor Kantor said.

He was optimistic that the economy had enough resilience to sustain high interest rates.

Top bankers are banking on fall in interest rates

S Times (Buss Times) 23/6/91 (58)

By CURT VON KEYSERLINCK

JAAP MEIJER ... 'nothing is impossible'

INTEREST rates look set to fall again before the end of the year.

"If inflation drops in the next two months, and there is a good chance that it will, the Reserve Bank will probably reduce interest rates," said Rand Merchant Bank economist Rudolf Gouws.

He added that the Reserve Bank has been keeping money scarce through dollar swops and the sale of Treasury Bills — measures that put upward pressure on rates. But the demand for credit is weakening, which is having the opposite effect.

Under such circumstances, it is difficult for the Reserve Bank to keep up the rates at which it lends to commercial banks while market forces are pushing in the opposite direction.

The Standard Bank economics department sees a good chance of a rate cut in the third quarter of the year, largely because of the falling money supply.

Flopped

First National Bank's economic services division also sees a "window of opportunity" for a 1% interest rate cut in September or October. TrustBank economist Nick Barnardt believes rates will drop some time before the end of the year.

Nedbank economist Ted Osborn said: "The leasing business has flopped, as has the demand for capital goods. I am optimistic that the Reserve Bank will have reason to lower interest rates before the introduction of VAT in October." He, too, believes that inflation will fall in the next few months.

"Interest rates will fall even if inflation does not," said Econometrix director Azar Jamine. "The economy is so weak and the demand for credit so low that I believe the Reserve Bank will allow a slight fall in interest rates as it did in March.

"It could do so before the introduction of VAT and will probably use the expected slight fall in inflation to justify the move.

"But when prices go up as the result of VAT, the Reserve Bank will probably keep rates where they are — on the grounds that VAT-related price increases are artificial."

At an economics seminar this week, Reserve Bank deputy governor Jaap Meijer appeared to try to distance himself from his statement in Business Times of May 26 that interest rates would not fall this year.

In a subsequent interview with Business Times, he said: "We are still not thinking about lowering rates, but nothing is impossible. If inflation drops we could lower interest rates before the end of the year."

He acknowledged that the Bank is using various measures to drain off excess liquidity in the money market and said it was for psychological reasons.

"If we stopped this the market could take it as a sign that we were about to reduce our interest rates," he said.

"High interest rates will bring down inflation only if people believe that they will stay high. So we have to try to convince them that we mean business.

"This is difficult, because in the recent past rates were brought down as soon as they started to hurt. The late Dr De Kock had the best intentions, but he was forced by political factors to reduce high interest rates in 1985 before they had a chance to stop inflation."

Dispute

Nonetheless, the Reserve Bank is under extreme pressure from the private sector — and, say some, the Department of Finance — to relax its rates policy. At the same economics seminar, Finance Director General Gerhard Croeser expressed doubts about the Reserve Bank's policy.

Sanlam economist Johan Louw said there is a dispute between the Department and the Bank. "The time for higher interest rates is running out," he said, reflecting what is believed to be the view within finance.

"Higher rates may bring down inflation to 12%, but is it worth it? Smaller businesses, especially those owned by blacks, are hit harder than big businesses because they pay higher rates than prime."

Dr Meijer said: "We hear that there is supposed to be a difference between us and finance. But we have good relations with them and we do not take their caustic comments seriously."

Banks look at ways to dodge tax blow

BiDay 24/6/91

(58)

GRETA STEYN

BANKS are considering group restructuring to soften the blow of VAT and the new tax on interest earnings, both of which come into effect on September 30.

Their appeals to the authorities for changes to legislation have fallen on deaf ears. They have responded by looking at ways to reduce the impact, and it is understood the major banks are considering rationalising group structures to shorten the transaction chain.

One possibility being debated is to do away with subsidiaries within banking groups, so that separate merchant banks may fall away. There is speculation that Nedcor could merge the two merchant banks in its group, Finansbank and UAL, while retaining their names. But there is a groundswell of resistance within all the groups' merchant banks, as their independence is treasured.

Nedcor MD Chris Liebenberg said efforts to minimise interest turnover and VAT due to group structures could be expected. "But to do something just for short-term tax reasons would not make sense. The Nedcor group is undertaking a restructuring not just for those reasons."

It is known that the Standard Bank group is also examining its group structure.

First National Bank senior GM Viv Bartlett said the group was considering "all options"

Chief tax policy director Trevor van Heerden said banks had to pay VAT on their inputs, but could not charge VAT

In a group context, this means that a service, like computers, provided by one company in the group to another will be subject to VAT Banks have asked for the tax to be levied at group level, rather than for the different companies

Van Heerden said, "The first draft made provision for grouping of the tax, but we decided against it as it would mean the income tax system would also have to change to be consistent.

"Very few countries in the world allow VAT to be paid at group level."

He added that the legislation was "to the detriment" of banks and life assurers, but other groups would not be similarly affected as they could offset the input tax against the output tax Non-banks could also benefit from rationalisation as it would ease the administrative burden.

Bankers said rationalisation would also help when it came to the new turnover tax on interest as it would reduce turnover by minimising intergroup borrowings.

Aldworth has clear plans for Allied

SHARON WOOD

RECENTLY appointed Allied MD Bob Aldworth will concentrate on expanding mortgage finance and other retail services, such as cheque accounts and credit cards, to the point where Allied "can compete with anyone".

Aldworth said in an interview that he wanted to introduce a scheme where the smaller to medium-sized corporate client could deal directly with branches. This would involve upgrading branch management.

Small and medium-sized corporate business would remain in the hands of Allied while large corporate businesses would be the responsibility of the Absa group.

He added that further rationalisation in the Allied would focus on treasury and foreign exchange departments. BDay 24/6/91

The accounting department had been rationalised in May.

In terms of the Absa merger agreement, the Allied would keep its identity for five years.

Asked whether Allied would then disappear, Aldworth said he had "no idea".

ALDWORTH

58

Absa would have to decide in the future on how the group would be structured.

He felt the formation of Absa would benefit both the company and the clients.

"With further advances in technology, clients will be able to get quicker and better services.

"But we will have to guard against putting too many services into one branch, thus making it impersonal and unmanageable," he said.

The move in SA banking towards large conglomerates was part of a worldwide trend, said Aldworth. He added there could be further alignments between the major banks, possibly ending up with three major banking groups.

Aldworth took over from former Allied MD Kevin de Villiers earlier this month, following De Villiers' resignation.

Aldworth said Allied staff morale had visibly suffered from the uncertainty surrounding Absa's formation and the departure of De Villiers.

"Improving staff morale is a main priority, but I believe it will settle down quickly," he added.

Aldworth takes the post as Allied MD after a long career in banking. He was Barclays MD and then chairman of Corbank.

Corbank was taken over by Cape Investment Bank and Investec.

Cape Investment Bank went into liquidation earlier this year.

COMPANIES

Investec on the acquisition trail

GRETA STEYN

INDEPENDENT merchant bank Investec is still on the acquisition trail after buying Duros Merchant Bank, Reichmans, Corbank and Corporate Portfolio Managers. (58)

But the merchant bank, whose rating on the JSE compares with that of the huge blue chips, says it is not consciously seeking to expand. This seems to contradict market rumours that it could be set for a tie-up with Fedsure and Saambou. Fedsure recently acquired a 30% stake in Saambou with Investec casting the deciding vote at a key general meeting of shareholders.

Investec's share price has more than doubled from 800c in October last year to 1650c, off its high of 1675c reached at the end of last month. The move has fuelled suggestions that a tie-up is on the cards.

Chairman Bas Kardol says in the latest annual report Investec "remains alert for opportunities .... While the financial services industry is undergoing fundamental change and its rationalisation through mergers and acquisitions has gained momentum, Investec's part in this process is one which is motivated by business considerations within its various operations, rather than any desire for size in itself".

He adds the group is "comfortable" as an independent organisation.

Investec has emerged unscathed from the image problems troubling the smaller banks, if its rating on the JSE is anything to go by. With a price to earnings ratio of double figures, its rating beats that of blue chip Stanbic. Analysts said the recent run-up in the share price also reflected a positive reaction to the results, with earnings increasing 37%. The average compound growth in earnings per share has been more than 30% for the past 10 years.

Takeover talk pushes up Boland Bank stock

BDay 24/6/91

SEAN VAN ZYL

(58)

CAPE-based Boland Bank's share price reacted strongly this week to market rumours that the independent may shortly become prey in the rationalisation sweeping the sector.

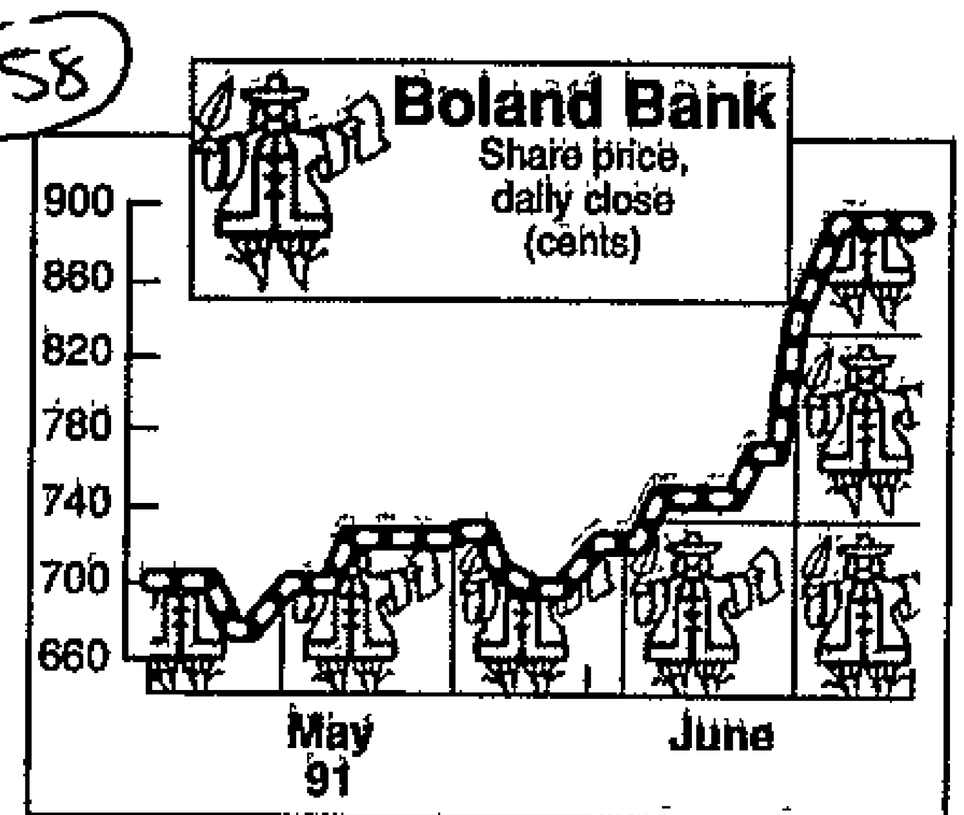
The speculation was fuelled by talk that Rembrandt might want to further restructure its shareholding in financial services to concentrate on Absa. It has already reduced its stake in the Standard Bank group, and talk is that it is looking for a buyer of its effective 29% holding of Boland.

Analysts said it would make sense for Rembrandt to sell off its shareholding in Boland, which did not really fit into Absa. But Rembrandt spokesman Hans Knoetze said the group had no immediate plans to disinvest from Boland.

The Boland share price gathered steam from Wednesday a week ago to climb by about 20% to 900c where it stuck on Friday. Brokers speculated there was something in the wind, but noted that the operation was probably too small to attract the attention of the major banking groups.

The Pretoria-based Saambou group was strongly rumoured to be negotiating a merger with Boland. But Pepkor chairman Christo Wiese, also a director on the Boland board, was said to be in the running with the NBS group as a possible third. But both Saambou and the NBS have denied the talk.

Boland MD Gert Liebenberg said he had not entered any talks with another banking group, and felt it extremely unlikely that Wiese would be behind a takeover bid.



Graphic: LEE EMERTON Source: INET

The stock tightly held by the Rembrandt Group, Sanlam, Volkskas, Momentum Life and pension funds is equivalent to over 63% of the issued share capital, so a takeover without the consent of the Boland board would be difficult.

Wiese, brokers noted, already had just under a 10% stake in Boland, and also recently secured over R81m through the sale of 3-million Pep shares. As a result, there have also been rumours over what Pepkor plans to do with the cash on hand.

Wiese was unavailable for comment, but a close source said he had expressed an interest in enlarging his stake in Boland.

The source added that a strong trend toward selling financial services products through retail chains has developed in the US, "and Christo has seen this as offering plenty of potential in SA".

However, to gain a majority interest, a potential buyer would have to accumulate more than 30% of the issued share capital to beat Rembrandt's 29% stake.

Cyclone, high crime batter Aegis

WILLIAM GILFILLAN

SHORT-TERM insurers have emerged from possibly their worst year to face another difficult 12 months.

Aegis Insurance chairman Angus Morrison believes last year was the worst underwriting year of the short-term insurance market in SA.

In the company's annual report he writes that following political changes in SA in the 1990s a serious escalation in crime and unrest put pressure on short-term insurers.

The last six months of 1990 produced "catastrophic levels of crime losses, especially car thefts, hijacking and housebreaking".

Morrison gives no indication in the annual report that prospects will improve.

The cyclone which struck Welkom in early 1990 added to the industry's woes.

Both the cyclone and the rising crime caused claims to increase by 36% to R161m from R118m.

This was partly offset by higher net premium income which rose by 27% to R220m from R173m.

Morrison attributes this increase to "rate increases and ongoing concentration of effort within certain niche areas".

This resulted in an underwriting loss of R10,5m for the year down from a R11,2m profit in the previous year.

Meanwhile, Guardian MD Keith Nilsson maintains that crime "has levelled off but not dropped" this year.

BDay 24/6/91

Battering

58

Nilsson said that because there had been a substantial increase in domestic rates, overall returns for short-term insurers should improve this year.

The battering short-term insurers have taken, combined with the effect of VAT, will see premium increases of as high as 30% in some cases.

SA Eagle MD Peter Martin believed VAT, and the high level of both claims and motor repair inflation, would see some companies increasing premiums by 20%-30% in the next six months. But the JSE has taken a sanguine view of the insurers' misfortunes, with their share prices holding up well.

4 Cape Times, Tuesday, June 25 1991

New bank to target on black business

(58) CT 25/6/91

Own Correspondent

JOHANNESBURG. — A new bank, aimed at competing with major existing banks by drawing billions of rands from black businesses, trade and consumer organisations, is to be launched in August and is expected to open for business in October.

The bank is a joint venture by Wesbank and the Foundation of African Business and Consumer Services (Fabcos). It will be headed by Mr Gaby Magomola, former African Bank chief executive and the present chairman of Fabcos Marketing.

The Fabcos link opens up great potential business for the bank — from taxi associations to taverners and savings organisations.

The 24 000 stokvels affiliated to the National Stokvels' Association — a Fabcos affiliate — are expected to channel their R7 billion funds through the new bank.

The stokvels association is one of 14 black trade and consumer organisations affiliated to Fabcos. All are likely to support the new venture.

It is understood the bank's corporate offices will be at Bank City, First National Bank's new headquarters under construction here. Wesbank is a wholly-owned subsidiary of FNB.

Branches of the new bank will be set up in major centres throughout South Africa, a move which could sideline the African Bank which has failed to make any impact in its natural market, the townships.

The new bank will also be a formidable opponent for national banks operating in the black community.

Wesbank spokesman Mr Neville Watchurst said yesterday that nothing had been finalised, and refused further comment. Fabcos media manager Mr Fanyana Shiburi said only Mr Magomola could comment on the issue and he was not available.

It is understood, however, that Mr Magomola and two Wesbank officials, Mr Ronnie Watson and Mr Watchurst, have worked on the project for 14 months.

Sources say the bank's operations will aim at using stokvel money and black savings to stimulate entrepreneurship in the townships. The Fabcos affiliates, with a membership of 1,3 million, will be the core of the bank's client base, while the stokvels provide the cash to make these loans.

Its main and guaranteed business will be the funding of blacks to buy minibus taxis. The SA Black Taxi Association is Fabcos's main affiliate and is solidly behind the establishment of the bank.

Land Bank foreclosing on 15 farmers a month

GERALD REILLY

PRETORIA — The Land Bank was foreclosing on an average of 15 farmers a month, a bank spokesman said yesterday.

Distressed farmers owed about R17bn and at least 200 would have to leave their farms this year compared with 128 last year.

The spokesman said the Land Bank had taken the initiative by sequestrating farmers on relatively few occasions.

In most cases, the bank had been compelled to act because farmers were declared insolvent or they had more debt than they were able to repay. BDay 25/6/91.

At the end of last year, farmers' long-term commitments to the Land Bank totalled R3,096bn and since then the total had increased, the spokesman said.

Farmers' debts to commercial banks were estimated to total R4bn.

Long-term Land Bank loans carry a subsidised interest rate — subsidised by the bank's own reserves — of 17%. (58)

The spokesman said short-term loans to co-operatives were almost double this figure at R6,032bn.

He said the slide into debt began after the 1983 drought.

The eastern Cape was the latest area to come under pressure.

Volkskas agricultural division manager Chris Mostert said farmers' debt problems were similar to those experienced by other sectors of the economy.

Magomola to head venture

Stokvels to underpin new black bank

(58)

Biday 25/6/91.

THAMI MAZWAI

A NEW bank, aimed at competing with major existing banks by drawing billions of rands from black businesses, trade and consumer organisations, is to be launched in August and is expected to open for business in October.

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Branches of the new bank will be set up in major centres throughout SA, a move which could sideline the African Bank which has failed to make any impact in its natural market, the townships.

The new bank will also be a formidable opponent for national banks operating in the black community.

Magomola was cagey about the venture when he was approached for comment last night.

"We have reached an advanced stage of a project started over a year ago. We are not yet in a position to make any disclosures," he said.

Wesbank spokesman Neville Watchurst said yesterday that nothing had been finalised, and refused further comment. Fabcos media manager Fanyana Shiburi said only Magomola could comment on the issue and he was not available.

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Other Fabcos affiliates include the African Builders' Association, the SA Taverners' Association (shebeens), the Foundation of African Informal Business Sector, the

☐ To Page 2

War against Fedsure will go on

B/Day 25/6/91. 58

Business Day Reporter

PRESTASI chairman Jan Erasmus has not given up the legal battle to stop Fedsure from controlling Saambou — after a controversial shareholders' meeting ratified the institution's gaining of a 34% stake in the building society.

Erasmus's first attempt to have the shareholders' meeting declared invalid failed. But Prestasi-linked NSA Principal Investments and CC Exchange are now focusing their battle on the Act regulating banks, the Deposit-Taking Institutions Act. They instituted legal proceedings on Friday, alleging the manner in which Fedlife converted its Saambou debentures into shares was illegal.

They are also applying for leave to appeal against a Supreme Court ruling earlier this month, which dealt with the right of 81 Main Street Nominees to use 6,75-million votes in favour of the Fedlife transaction at the Saambou meeting. They are also asking for leave to appeal against a Supreme Court decision giving Investec the right to vote shares held by NSA and CC Exchange.

Saambou's share price rallied 2,3% yesterday to 133c on the news of the legal action but is still 27% down from its high of 183c.

EXEC

Banking could go back to grassroots

(58) Star 26/6/91

By Jabulani Sikhakhane

Informal financial structures such as stokvels, credit unions and the co-operative banks could in the future be accommodated under the new Co-operative Banking Act, which the Department of Bank Supervision proposes should be based on the principles of the Mutual and Building Societies Act of 1965.

Dr Nico Marais ~~of~~ the Office of Deposit-Taking Institutions confirmed yesterday that the idea of replacing the Mutual and Building Societies Act was being considered.

He said the idea was not to stifle informal financial institutions, but to develop banking from the grassroots.

The concept being explored was one of self-regulation, whereby associations would lay down guidelines for members.

Information on the number of stokvels, average membership and size of contribution from each member would, for instance, be collated.

Dr Marais said informal structures could be the solution to financing the informal business sector.

He cited the Grameen Bank of Bangladesh as one example of an informal financial arrangement, which had developed into a bank for rural people.

A study by Markinor found that about R52 million changed hands within stokvel groups in the major metropolitan areas.

It also found that about 680 000 black adults — one quarter of the black metropolitan population — were members of stokvels.

The use of informal financial arrangements to finance business was one of the suggestions in the World Bank's Development Report 1989.

The report suggested that informal financial arrangements should be upgraded and linked to formal institutions.

The report said formal financial institutions were often not well suited to the needs of the informal sector.

Sankorp to trim stake as Metlife restructures

(58)

By Ann Crotty Star 26/6/91

Metropolitan Life has announced details of a major restructuring which will see Sanlam/Sankorp reducing its holding from 72 percent to 49 percent and an additional 22,2 million shares being issued at 950c a share.

In the first step of the transaction Sanlam/Sankorp will sell off 10 million Metropolitan shares to "certain pension funds, fund administrators, other investors and policyholders" with whom they are currently negotiating.

The rights offer which is being pitched at 950c a share involves 50 shares being offered for every 100 shares held. This means that the number of shares in issue will be increased from 44,5 million to 66,7 million.

The approximate R210 million cash to be raised by the offer will form part of Metropolitan's total pool of investment funds as is currently the case with existing shareholders' funds.

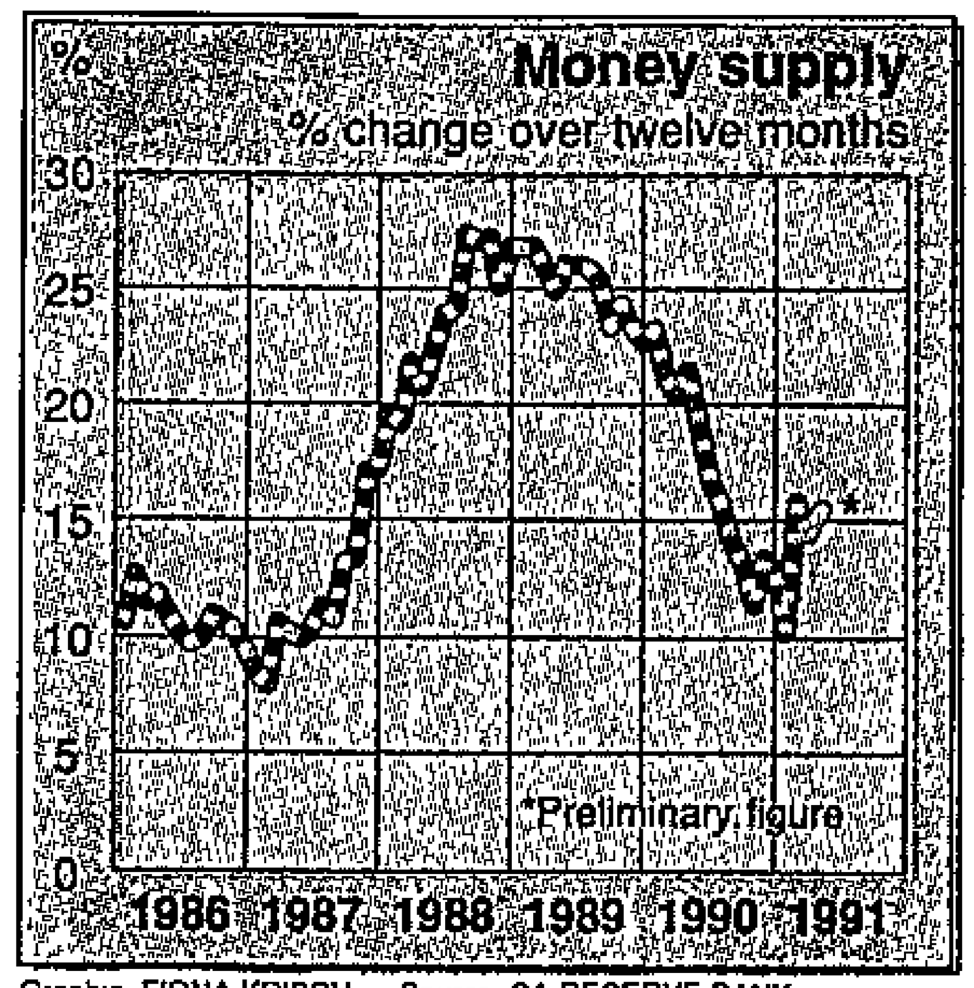
Sankorp is underwriting the offer.

The controlling shareholders as well as the institutions, who have indicated that they will acquire part of the 10 million shares Sankorp is selling, have also indicated that they will follow their rights.

If all of the shareholders follow their rights, Sankorp will have a 49 percent stake when the exercise is complete.

According to the official announcement the decision to broaden the shareholder base is a response to institutional investors' views that there is little point in them acquiring an interest in Metropolitan because of the limited number of shares available for trading on the JSE.

The additional capital is expected to "enhance Metropolitan's ability to grow profitably in those important sectors of the market on which the company focuses."



Graphic FIONA KRISCH Source. SA RESERVE BANK

Money supply up 15,1% for May (58)

B/Day 26/6/91 SHARON WOOD

TECHNICAL factors continued to inflate money supply growth, which rose by a preliminary 15,1% year-on-year in May, up from April's 14,5%.

Reserve Bank figures released yesterday showed the figure used by the Bank to guide monetary policy — growth in seasonally adjusted M3 from the fourth quarter of 1990 — rose by 22,01% in May. This was slightly higher than April's 21,75% growth.

Economists said although money supply growth remained outside the Bank guideline of 8%-12%, there was no cause for alarm. The effects of reintermediation made the money supply figures largely meaningless and it was difficult to determine the underlying trend.

Distortions in the money supply statistics from the new Deposit-Taking Institutions Act requirements, implemented in February this year, will fall away only in February 1992.

Preliminary seasonally adjusted M3 money supply rose to R174,9bn from R171,9bn in April.

Although money supply continued to rise in May there were firm indications of a slowdown in the general demand for credit. Credit extended by the banking sector to the private sector fell by 1,2% in April and hire-purchase credit dropped by 4%.

Nedbank chief economist Edward Osborn said it was disappointing that the year-on-year rate of increase in M3 was above 15%, but encouraging that April's preliminary figure was revised to 14,5% from 15%.

● Comment: Page 10

Govt moves to calm market fears

(58) CT 26/6/91

Own Correspondent

JOHANNESBURG. — Government has moved to calm market fears that it is to unleash a cash flow of R10bn a year onto the JSE once its pension funds are freed from investment constraints.

A statement yesterday said the funds would continue to invest heavily in government stock and there was no question of piling into equities.

Legislation was passed on June 14 to place five state pension funds on the same footing as private sector funds. A committee, headed by former Corbank MD Laurie Korsten, is investigating the phased entry of these funds into investments previously not allowed. Korsten became a consultant after Corbank was taken over.

Korsten said in a statement yesterday: "Participants in the financial markets are concerned that the State Pension Funds entry into the equity market will exacerbate the shortage-of-scrip problem." He added the bond market feared the funds would become a net seller and will therefore put upward pressure on gilt rates.

"An irresponsible equity buying schedule resulting in the acquisition of overvalued common stocks could be self-defeating and detrimental to the Pension Funds. In short, the equity accumulation programme will take time," he said.

On the bond market, he said the state pension funds would continue to be net buyers of gilts.

He said the final report on the effect of the "privatisation" of the pension funds on the financial sector is expected to be in the hands of the Cabinet by end-September.

He said that government and the committee were aware of the lack of marketability in the equity market and the dangers of over-valuation were fully understood. Korsten added that the equity accumulation programme would take time and be handled "responsibly".

Korsten said at present the Public Investment Commissioners' portfolio was skewed towards the short term of the market. The funds have R8bn in cash.

"Consequently any diversification out of the fixed-interest securities could be comfortably handled without having to dispose of long-dated securities."

A separate board of trustees would be appointed for every fund while the future management would concentrate on managing the actuarial shortages.

NedPerm will fight to keep its stokvel clients

BDay 26/6/91. (58)

THAMI MAZWAI

NEDPERM is confident it will not lose its stokvel business to the new bank being launched by Wesbank and the Foundation of African Business and Consumer Services (Fabcos).

NedPerm stokvel accounts manager Richard Ford said the Perm would fight hard to keep stokvel business.

As Business Day reported yesterday, Fabcos and Wesbank have decided to launch a new bank in October, with much of the business expected to come through Fabcos links with stokvel savings organisations, taxi associations and taverners.

Severe blow

National Stokvels Association president Khehla Lukhele says blacks no longer see themselves as "mere savers" but as people whose money should be invested in projects for black development.

The new bank seemed likely to provide such an opportunity.

Former African Bank CE and current chairman of Fabcos Marketing Gaby Magomola is expected to head the bank, which could draw millions in stokvel money. If it did, this would be a severe blow for the Perm, which is thought to attract at least 10% of the stokvels' savings.

Ford said yesterday: "We are going to make sure our clients remain with us. I will, however, keep a close watch on the Fabcos bank, just as I have been doing with our other rivals.

"It is unrealistic to expect blacks to move their accounts to a bank because it is black controlled.

"For instance, the African Bank has been in existence for several years but has not made any breakthrough into the black market."

The Perm has about 10% of the stokvels' business. "We have 75 000 stokvel accounts in our books," he said.

Lukhele has estimated the number of stokvels in SA at 800 000.

Yesterday he said there was a growing belief in the stokvels movement that its money should be invested in black development.

"The stokvel accounts our members have with some financial institutions are mere savings accounts.

"Our members are now more than savers, they are investors.

"They want newer products.

"Also, institutions do not accept stokvel accounts as security for personal loans by members," he said.

Asked how far the stokvel movement would support the new bank, he said: "As soon as it is launched, our members will be educated on the issues involved.

"However, no stokvel will be made to switch its account to the new bank. They will make their own decisions."

Property owners' role in new SA in the spotlight

BWay 26/6/91.

(58)

Reports by PETER GALLI

THE property industry needed to act now to establish its place in "the new SA", delegates to the recent SA Property Owners' Association (Sapoa) annual convention in Durban said.

In a country undergoing such vast change, delegates said, property companies needed to start positioning themselves now, rather than waiting and seeing what happened. By then it could be too late.

Eskom management board CE Ian McRae said organisations like Sapoa and Eskom should determine whether they were playing, or wished to play, leadership roles in determining the country's future.

"Leaders must have a vision of the future and of where they would like to place their particular country, organisation or group, to be able to meet the challenges that lie ahead," he said. Violence, unemployment and social and family breakdown were three tough challenges that had to be faced.

"No matter who inherits the reins of power, the economic order will decide whether the future is successful or not," McRae said.

It was essential that the political, public and private sector interest groups committed to economic development were brought together, that priorities for development were agreed upon and that a timetable was set to achieve these targets, he added.

Camdon's Realty MD Scott McRae said he felt SA had a future, but that the best way to predict it was to create it, and that it was incumbent on all to do just that.

The property industry would have to adapt to meet the new situation in terms of foreign investment, new immigration and economic growth, however small it was.

"These will all translate into a healthy property market, probably in spite of the worst that politicians can do, not because of them," the Camdon's MD said.

He added that government planners had admitted defeat on the anti-inflationary front as their best efforts to "squeeze" inflation out of the economy had succeeded only in swelling the hoards of jobless and increasing the number of corporate insolvencies.

All of this was in return for a minor decline in the official inflation rate, with SA having therefore to contend with stagnant growth and high inflation, he said.

"In this scenario, property assumes a vital role as a store of wealth as historically, property values have matched or bettered the rate of inflation," he said.

Urban Foundation executive director (urbanisation) Anne Bernstein said the key issue facing SA in respect of standards and quality of life was that 7-million people lived in informal housing circumstances — a number greater than the whole white population.

"I challenge those who claim the country's housing resources should be spent mainly on building formal houses for sale or rent. The time has come to switch the burden of proof.

"These cities must show that their approach will not result in only small numbers of probably well-connected people getting formal houses in the range R30 000 to R40 000 each, thereby leaving the vast majority of the homeless condemned to insecure, distant shack areas with no prospect of state assistance," Bernstein said.

The Greenmarket Square facade of Protea Assurance's new upgraded and extended Cape Town headquarters. The R12m two-phase contract, which has taken two-and-a-half years, is expected to be completed by Ovcon next month. It provides 7 000m² of office space and 1 000m² of ground floor retail space. The conversion of the complex was designed by Louis Karol Architects.

Stanprop's Strauss warns of earnings growth distortions

(58)

B'Day 26/6/91.

PETER GALLI

THE rationalisation of the portfolio of Standard Bank Property Fund (Stanprop) will, in the short term, result in distortions in earnings growth, fund managers chairman Conrad Strauss says in his latest annual review.

"This is mainly as returns on cash funds differ from those on property investments. However, in the longer-term, once Stanprop is more fully invested in property, the trust should achieve its objective of producing consistent growth in income and capital."

While Stanprop is budgeting for growth in net distributable income, growth is dependent on the timing of investment of cash funds into initially lower yielding property investments and on prevailing interest rates, he says.

In line with moves to upgrade Stanprop's property portfolio, it acquired an industrial site in Strijdom Park, Randburg. It has three other developments with a budgeted cost of R28m under construction, for completion in 1991.

In addition, Stanprop's developments in Springfield, Heriotdale and Westville, which were initiated in 1990, were completed in 1990 for R15,3m.

All three properties are fully let, Strauss says.

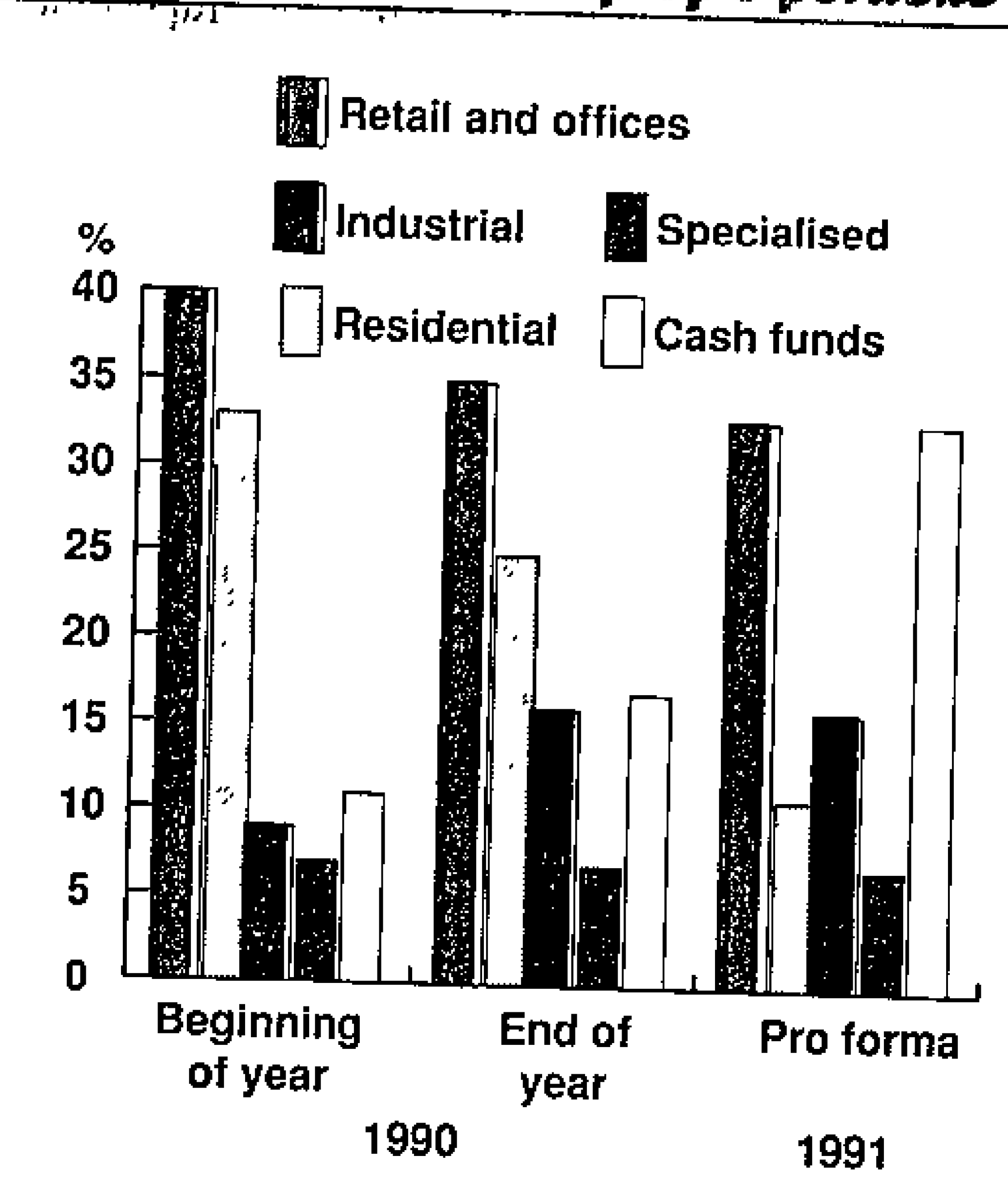
Four properties were sold for a total of R13m in 1990. These yielded a non-distributable profit of R6m.

Since the year-end, Stanprop has disposed of its 964-unit Bedford Gardens residential complex for a cash price of R90m.

"The non-distributable profit that will be generated from this transaction is R52,8m, with the financial effects appearing in the 1991 financial statements," Strauss says

"Capital funds available for investment at the end of December amounted to R54,2m, which will increase to R145,6m when proceeds for disposals are received," says Strauss.

Sectoral spread of Stanprop's portfolio



Graphic: LEE EMERTON Source: STANPROP

Claims against CIB dismissed on technicality

CT 26/6/91.

(58)

By ARI JACOBSON

CAPE INVESTMENT BANK (CIB) took what should have been a further step in closing the doors on the banking debacle of the decade, at the second creditors' meeting in the office of the Master of the Supreme Court yesterday.

But claims lodged by the SA Reserve Bank were dismissed on a technicality and will be taken to the Supreme Court on review.

The meeting should have been a simple process — claims being handed to the Master and the resolution (or a modified alternative) accepted by the creditors of CIB.

Cyril Ziman, the attorney acting for the SA Reserve Bank, said only three claims on the estate of CIB had been put forward. These claims of R22,5m, R96 000 and R58 000, which were ceded in favour of the Reserve Bank, were dismissed by the Master as he held that they did not reflect the oral nature of the agreement.

Ziman said this stalled proceedings and allowed only the three claims to be heard. The meeting was adjourned until October when further claims will be addressed.

A lengthy affidavit by, among others ex-CIB CE Andy Swarts, was tended to the Master — but failed to impact on final proceedings.

Swarts was deemed to be in contravention of Section 33 of the Companies Act which requires confidential information between the central bank and a private financial institution to remain as such.

CIB was flung on the rocks through poor management which allowed among others R23m to be loaned to failed brewery Rico (this on a capital base of roughly R38m).

Other instances of bad money management saw subsidiaries (like the computer software division) with monthly overheads of some R200 000 generate not one cent in income.

CIB was also linked to the R15m default in the Futures Market by Davis Ralph Sadleir (DRS).

Outlook bleak for interest rates drop

(58) ARG 26/6/91

The Argus Correspondent

DURBAN. — Minister of Finance Barend du Plessis has dashed any hopes of political pressure dragging down interest rates — and has pledged to respect the independence of the Reserve Bank.

Speaking at the opening of the new R52 million Reserve Bank building in Durban last night, Mr Du Plessis said it was critical in a new South Africa that the Reserve Bank should retain its independence.

"We cannot manipulate interest rate patterns ... it will be a violation of the efficiency of the monetary system. There will always be tension between politics and sound monetary policy but there has got to be a very real independence seated in the monetary authority."

He said one of the greatest challenges facing the authorities was making the public aware of the need, and the methods that had to be employed, to control inflation.

Mr Du Plessis said the authorities were on the verge of success in breaking the neck of inflation.

Rather than lower interest rates, other methods — such as subsidisation and cash assistance — had to be devised to counter the costs that accompanied high rates.

Whites buy African Bank shares

BDay 27/6/91.

THAMI MAZWAI

THE black-owned African Bank had approved applications for shares to the tune of R2m, more than half of this from whites, CE Jack Theron said yesterday.

Theron said: "We have had a steady stream of applications for shares since October last year. The interest surged from January this year after the shareholders' general meeting approved the purchase of ordinary shares by all races.

"Today's approval brings our issued ordinary share capital to R6,2m of our authorised R12,7m ordinary share capital.

"My board, however, still believes in blacks owning the majority shares and will in future decide on a black-white share ownership ratio."

The bank previously restricted ordinary shares to blacks, while the Standard Bank, TrustBank, First National, Volkskas and NedPerm jointly held R4,5m in R1 redeemable preference shares convertible on default.

(58)

Theron made the announcement as his bank prepared for competition from a bank to be launched by Fabcos and Wesbank in August.

Wesbank GM Robin Shale confirmed yesterday that an application for the registration of the new bank was lodged with the Registrar of Banks last month.

Theron said his organisation would "respond accordingly" to the creation of the new bank.

African Bank had "collared the northern Transvaal market", he said. It had taken over all Lebowa Development Corporation bank agencies this year and had opened branches in Tzaneen, Thohoyandou, Queenstown and Bisho.

Bank Act used in CIB clampdown

58

LESLEY LAMBERT

CAPE TOWN — The Reserve Bank yesterday placed a secrecy order, in terms of the Reserve Bank Act, on documents related to a dispute over the estate of liquidated Cape Investment Bank (CIB).

This followed allegations of collusive dealings between Reserve Bank officials and Prima Bank which emerged after a CIB creditors' meeting this week.

It was alleged that the Reserve Bank officials were aware of the transfer of assets, including expensive computer systems and open trading positions on the financial markets, from CIB to Prima Bank at prices below market value.

These alleged dealings, which adversely affected CIB's value, were said to have taken place in the period between Prima Bank's takeover of CIB and CIB's liquidation. Bday 27/6/91

Furthermore, it was alleged that large deposits, withdrawn just before CIB's liquidation, materially prejudiced the position of current creditors.

Former CIB MD Andy Swartz, who left the bank when it was bought by Prima, attended the creditors' meeting. He said he could not comment because of the veil of secrecy drawn over proceedings in terms of Section 33 of the Reserve Bank Act.

The Reserve Bank gave notice of its intention to take the Master of the Cape Supreme Court on review earlier this week after he turned down the central bank's R23m claim on CIB's estate.

It was the second time that the Reserve Bank's claim had been disallowed.

If the creditors are able to prove their allegations of collusion, and that it was this collusion which resulted in CIB's liquidation, the Reserve Bank and Prima Bank may have to make good the multimillion rand losses incurred as a result of the liquidation.

The next creditors' meeting has been scheduled for October 4.

SOWETAN Building the Nation

Focus on PROPERTY

Don't wait for the bank to take steps

Sowetan 27/6/91 58

Home ownership is not a privilege. It is a just reward for hard work and perseverance. But how do you set about buying ground then financing, building and maintaining a home? Join us every Thursday to learn the answers. If you still have any questions, please write to Jacky at PO Box 260835, Excom, 2023.

OVER the past four months we have investigated a number of aspects of buying your own home.

We have discussed conventional housing and starter housing - as well as an exciting new concept that will soon allow low income earners to purchase their own ground for just a few hundred rands in convenient, newly laid-out townships.

Whichever scheme is right for you, the purchase of your own land - with or without a house on it - could be the biggest investment you will ever make.

For this reason alone, it is vital to know exactly what is involved . . . and you have every right to insist that all the details are fully explained to you before you sign any document relating to the purchase of property.

Sowetan readers obviously take property investment seriously, and some of the letters I have received have raised important issues.

A reader from Wedela wants to know whether it is possible to shorten his bond repayment period of 20 years.

The answer is "yes", provided he pays more than his minimum instalment each month. He himself can decide on the extra amount he can afford to pay - but remember, most financial institutions recommend that instalments should total no more than 25 percent of your monthly household income.

If you can afford to invest a little more each month on your bond instalments, you score in many ways.

Firstly, you will pay off your bond sooner. Once this is done you will experience the freedom of owing nothing on your house. And secondly, because you pay interest only on the money that you still owe, you will pay less interest in the long run.

It is always more economical to pay off your bond more quickly than it is to have spare money in savings. If you can manage to pay off even a few extra rands each month, talk to your bank or building society about making the necessary arrangements.

For some people, the question of bond repayments is a less happy subject. If you have problems and cannot afford to pay an instalment, please don't - whatever you do - ignore the situation.

If you do not pay a monthly instalment, or pay it even a few days late, the interest you owe for that full month will get added to your loan. After one month, the bank or building society will inform you that they are entitled to take steps to repossess your house. After this has been done, they will sell it.

So if you are having difficulty paying your instalments, don't waste any time. Pay as much as you can, then contact your bank or building society to discuss your problem with them.

You will need to give immediate thought to ways of earning extra money to solve your difficulties - running a small business from home, perhaps; or renting out a room in your house, working overtime or asking other family members to pay a share.

If you simply cannot raise the extra money, give thought to selling your house to pay back your debts.

Do everything you can to sell before the bank or building society does. If you wait, you could lose everything and never be given another home loan.

Still on the subject of instalments, a number of readers have written to ask what happens if payments of their first-time homebuyers' subsidies do not start up immediately after transfer.

This is tricky, as it can take between three and six months for the first payments of this particular subsidy to be made to your bank or building society.

In the meantime, you will be responsible for paying each instalment in full.

Once the Government begins to pay your subsidy, your bank or building society may agree to temporarily add the monthly subsidy amount to your loan.

Ask them straight out whether they are prepared to do this.

As we pointed out earlier, it is your right to insist on clear answers to any property-related problems that may be worrying you.

Prepared by FHA Homes.

Institute aims to improve insurance selling skills

58

Sowetan 27/6/91

By ALI MPHAKI

THE Institute of Marketing Management (IMM) has formed a new insurance branch to improve marketing skills in the South African insurance industry.

Martin Sweet, Press liaison officer of the new branch, says the training of insurance industry and personnel will receive particular attention.

"We are, for example, experiencing a substabtial increase in the number of black insurance brokerages all over the Republic.

"Many of these brokers have not had the opportunity of acquiring marketing skills which are an essential part of the insurance industry today. One of our first objectives will be to include marketing modules in insurance training courses."

The IMM's insurance branch will also arrange in-house training, special workshops and seminars aimed at raising the standard of marketing competence in the industry.

"Insurance is a product that generally has to be sold: it is seldom readily bought. In the current economic climate, the insurance industry will need specialised marketing know-how to continue to prosper,"Sweet added.

The committee of the IMM insurance brach consists of Tim Beckett (chairman), Brian Scott (vice-chairman), Khehla Mthembu (treasurer), Prof Robert Vivian (education officer), Mary-Ann Nuis (membership officer), Hilary MaCaulay (secretary), Robbie Faux and John Rollason.

SOWETAN B

Move to assist informal sector

New bank may be launched

Sowetan 27/6/91. (58)

A STRONG institution with a financial base estimated at R2-billion aimed to assist the rapidly growing black informal sector is to be launched in South Africa, possibly in August this year.

By JOSHUA RABOROKO

The bank - believed to be financed by local and foreign investors - is a joint undertaking by the Foundation of African Business and Consumer Services (Fabcos) and the West Bank.

It is believed that the new bank will be an important milestone in the history of Fabcos which is a major re-alignment of economic sources taking place in South Africa, that will profoundly affect the course of events in this entire region.

No official confirmation has been received from the Fabcos and Westbank ranks on the issue, but sources have said that the planned move will probably take place in August, with implementation in October after the Sabta - an affiliate of Fabcos - conference in September.

Westbank Managing Director Mr Neville Watchurst yesterday said that they held discussions with Fabcos on the issue in the past, but was not prepared to comment at this stage because the matter was still under consideration.

Tipped

He would neither confirm nor deny that the "intended bank" would start operating this year.

"If there is anything about the bank, we will call the Press to announce it," he said.

Fabcos marketing chairman Mr Gaby Magomola, who is tipped to head the new financial institution, was not available for comment, nor was any official of the organisation available to cast light on the move.

However, it is a well-known fact that Fabcos has been planning to establish its own bank that will rival the African Bank, previously headed by Magomola.

The African Bank is a brainchild of Nafcoc.

Nafcoc's executive director Mr Mofasi Lekota said that he did not see the new bank as a problem because it would serve as competition.

He did not believe there was any rivalry between Nafcoc and Fabcos, he said, adding, "in fact we have held talks on many major issues with them".

Agents

"We will continue this discussions in pursuance with what is in our agenda to develop our economic development," he said.

The manager of the Bank Supervision Department of the Reserve Bank, Advocate Johan de Jager, said that three applications from agents, including one Future Bank Limited, were still to be approved within three weeks.

It was procedural that the Reserve Bank would normally not divulge the name of the applicant before authorisation.

He would not say whether Fabcos was one of the applicants.

It was difficult to ascertain whether the applicants were black or not, he added.

In order to understand the significance of the task facing Fabcos, it is necessary to show how the balance of economic power in South Africa is shifting steadily and irrevocably towards blacks.

Success

The key to Fabcos success, however, is unity. Without it, the black businessman and consumer will continue to struggle alone in disparate groups against the historical corporate interests of neo-colonial wealth and self-interest.

Central Statistics reports show that between 1973 and 1999, the income of blacks grew from 20 percent as opposed to 15 percent for whites.

Between 1986 and 2000 earnings growth is projected to average 50 percent for blacks as against 10 percent for whites.

It is estimated that by the year 2000, blacks will constitute 84,1 percent of the economically active population, and 10 years later, will hold some 80 percent of the disposable income.

SAPOA CONGRESS (58) FM 28/6/91.

TALKING UP THE MARKET?

Talk of an imminent economic upturn may be the topic of the month in some circles. But despite the bullish sentiment expressed at last week's Sapoa congress, the property market appears to have some way to go before it feels any real benefit.

Among the optimists was FNB economist Cees Bruggemans, who predicted the beginnings of an upturn as soon as late this year. The revival, he said, would be driven by industrial growth through inventory replacement, falling interest rates and the restoration of IMF capital credit facilities to SA.

But even he conceded that property, a lagging indicator, might take a little longer than other sectors to feel the improvement. There was concurrence on this when the outlook for office, industrial and retail property came up for individual discussion.

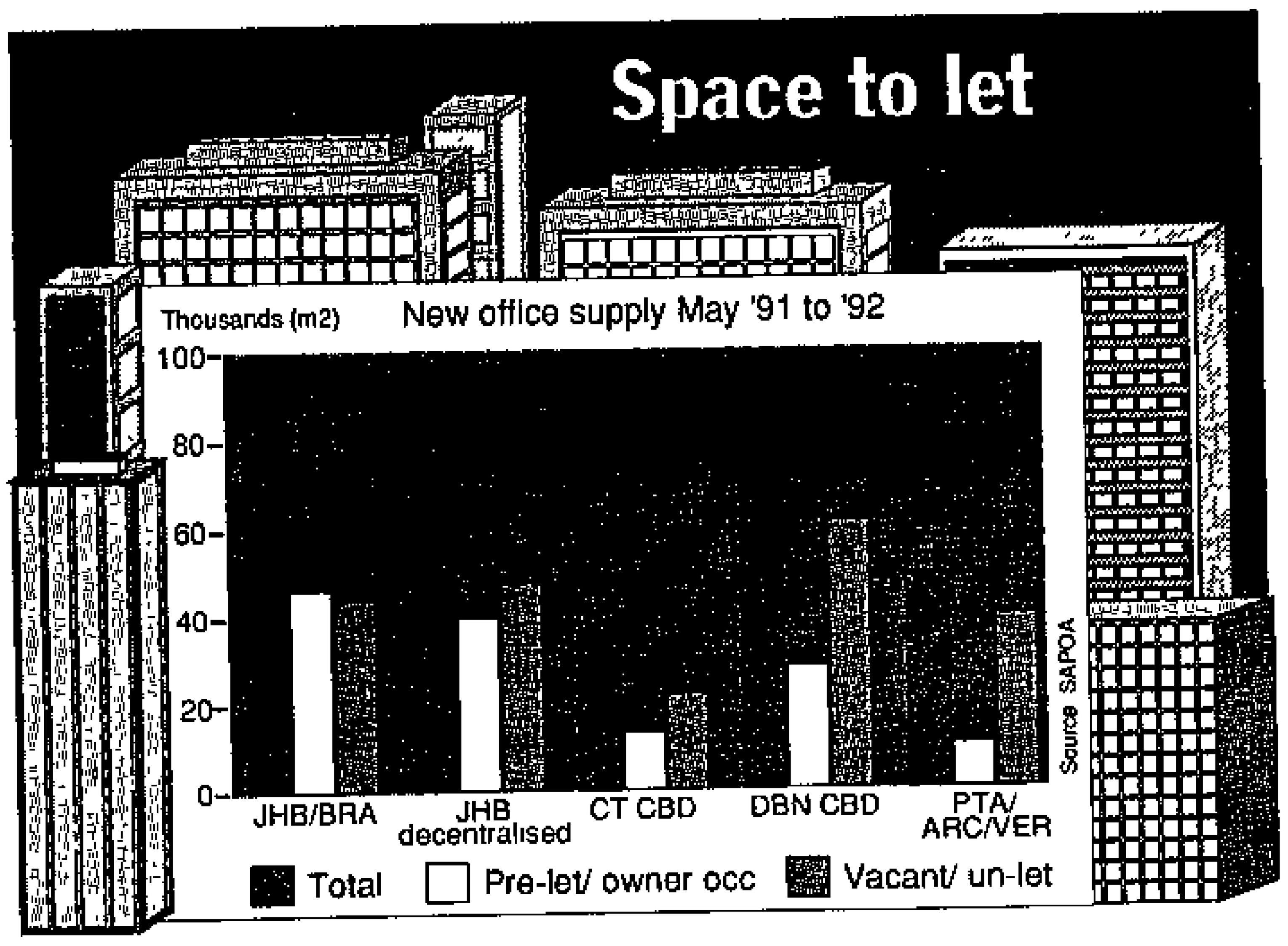
The office market, as Southern Life Properties' Johnny Johnson pointed out, is suffering — though vacancies are still within manageable proportions. Growth in rentals has come off, demand for offices has dropped and vacancies are rising.

This could change quite quickly if there is a significant economic upturn. However, Johnson feels there's little likelihood of a fall in interest rates to below 18% in the next 12 months. This will keep tenant demand in check. In addition, there is a lot of new and unaccounted for office space coming on the market in the near term. "We will be looking at a vacancy level (in A- and B-grade office space) of about 12% in a year's time," he predicted, "compared with roughly 8% across the board now. If it isn't a tenant market today, it sure will be one tomorrow."

Johnson isn't all pessimism, however. The property industry, he observed, has endured such troughs before. He urged developers to take more account of timing and market demand in bringing new schemes to fruition rather than developing simply because of pressure on capital flows. He also believes that with the changing political and economic climate, there could be greater demand for well-appointed but less sophisticated and luxurious offices. This could mean opportunities for refurbishing older office buildings.

Barprop's Colin Steyn is more optimistic about the outlook for industrial property. He noted that though most of the space vacated in the mid-Eighties has been absorbed, the current downturn has resulted in a considerable level of idle industrial capacity.

"This will effectively defer the requirement for additional industrial space until the middle of next year, when economic conditions are expected to improve and demand for products should increase," he says.



New *free space is worrying*

In spite of these difficult trading conditions, he said the industrial property market had been extremely resilient. Vacancies have stayed low, though they did increase slightly between the second quarter of 1990 and the first quarter of this year.

In addition, he noted that organisations like Real Estate Surveys, which publishes *Rode Report*, have indicated that industrial rentals had risen significantly across the board, between the second quarter of 1988 and the first quarter of this year. The highest gains were shown in sub-500 m^2 units on the Witwatersrand, where rentals rose by 84% in the period from R5,40/m^2 to R9,91/m^2. However, large 5 000 m^2-plus industrial units in the same area also showed the lowest increase, at 26%.

But Steyn feels that "with both political and economic forces at play and with an international acceptance of SA into world markets, industry can generate the activity needed for a takeoff on a high-growth road. This will result in many good opportunities for industrial property."

Retail property, on the other hand, appears to have shot its bolt — at least in the short term. Liberty Life Properties' Gavin Main said while there would be continued growth in the sector, it will not be at the levels experienced in the Eighties. Instead, future growth would be marked by a greater utilisation of existing resources through refurbishments and extensions. Another inhibiting factor, he predicted, would be increasing competition from informal retailers. "We will also see a further upsurge in the informal sector, in which I believe the removal of controls is not necessarily desirable, though it fulfils a need."

Main added that while many continue to believe SA is overshopped, this was only true in terms of meeting the needs of certain sections of the population. The corollary to this was that there would be continued opportunities in the industry for further retail developments.

So, while it appears that the property market is not yet out of the woods, and probably won't be for some time, it was refreshing that, at a congress of the stature of Sapoa, the consensus was that at last the economic barometer is beginning to point towards revival. ■

INSURANCE FM 28/6/91 (58)

UNCOVERING COSTS

There's a new control on insurance brokers' earnings in the latest draft of the Short-Term Insurance Bill. If the clause is approved, brokers will have to disclose any fees they earn from a policy (as distinct from commissions). Fees will have to be agreed by their clients and it will not be permissible for fees to be recovered inclusively with the insurance premium.

The reasoning, a spokesman for the Financial Services Board explains, is that consumers are entitled to understand the true cost structure of their policies. Reactions among brokers are mixed: larger firms are comfortable with the clause; a small independent says the disclosure provision could ring the death knell for many intermediaries.

At the root of the problem is the regulated commission system. On average, a broker receives 15% of premium payments. On a large account, where the premium may be

Continue

FM 28/6/91 (58)

R1m a year, few brokers receive R150 000 commission. Rebating commissions is frowned upon but the practice is common.

Yet at the lower end of the market, even the full commission may be inadequate. A member of the Independent Brokers' Council suggests a typical small business policy will net a broker R200 a month. For that, he has to make five or six personal visits a year and administer any claims.

Willis Faber Enthoven Special Services MD David Laing says larger brokers negotiate fees as a routine and they are always agreed in writing. The fee system evolves from the trend towards risk management programmes and self-insurance.

"If we advise a client not to insure certain assets and also to budget for some losses so as to reduce the premium, we cut into the commission base. It follows that an agreed fee for professional advisory services is acceptable."

Laing has never encountered fees being levied in addition to a full commission, but agrees this could happen in the case of brokers handling mainly small business.

Martin Milton, of Westgate Brokers, a member of the IBC's short-term committee, says separate disclosure of fees is acceptable in principle but there could be considerable discomfort in practice. It will increase administration costs and could present a problem if a broker has been charging a fee as a percentage of premium and including this amount in premium notes.

"The bottom line is that the regulated average commission of 15% is not enough for small accounts. The introduction of VAT will further erode our commissions because, being regulated, they cannot be increased to compensate for the Receiver's share."

The FSB paints a different picture. The 15% commission is a business acquisition cost paid by the underwriter to the intermediary. It is invisible to the consumer. A fee is different and should, a spokesman says, be pointed out in writing as a separate item.

For underwriters, regulated commissions are convenient and easily budgeted. But the system fails to address the anomaly that corporate brokers and parochial operations are — notionally — rewarded in the same structure.

For the rest, there is little new in the latest draft Short-Term Bill. It eliminates the proposal for underwriters to offer 50% of their reinsurance programmes to the seven local professional reinsurers.

That had been seen by underwriters as a hand-out for the reinsurance market and potentially inflationary.

Reinsurers, however, will not after all be forced to separate life and short-term business into separate companies. Five of the seven are composites and may continue to operate as such.

Bryan Deans

RAND'S PRICE

Jun 25 1991	R1 equals	One foreign unit equals (R)
SDR	**n/a**	**n/a**
	0,285	3,505
ECU	**0,303**	**3,305**
	0,305	3,279
UK £	**0,211**	**4,738**
	0,216	4,634
US $	**0,347**	**2,878**
	0,374	2,676
Canada $	**0,394**	**2,538**
	0,438	2,283
Switzerland Fr	**0,532**	**1,880**
	0,527	1,898
France Fr	**2,099**	**0,476**
	2,105	0,475
Germany DM	**0,618**	**1,618**
	0,627	1,595
Japan Yen	**47,975**	**0,021**
	57,910	0,017
Italy Lira	**459,610**	**0,002**
	459,090	0,002
Zimbabwe $	**1,100**	**0,909**
	0,920	1,087
Austria Schil	**4,355**	**0,230**
	4,410	0,227
Holland Guilder	**0,695**	**1,439**
	0,705	1,418
US $ value of SDR	1,316	**1,314**
US $ value of ECU	1,231	**1,153**
Financial Rand		
Cost per US $	4,028	**3,325**
Discount (%)	33,690	**13,328**

Year ago figures in light print
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved
The above rates are for guidance purposes only.

FAIRCAPE

PAYING THE PRICE

Activities: *Property development.*
Control: *Directors 54% (1989: 46%).*
Joint MDs: *M J Vietri, J E Moser.*
Capital structure: *9m ords. Market capitalisation: R2,7m.*
Share market: *Price: 30c. 12-month high, 80c; low, 30c. Trading volume last quarter, 166 152 shares.*

Year to Dec	'87	'88	'89	'90
ST debt (Rm)	0,95	17,04	11,7	17,9
LT debt (Rm)	0,09	4,06	6,3	4,6
Debt equity ratio .	2,52	3,68	1,53	3,8
Shareholders' interest	0,2	0,15	0,32	0,17
Int & leasing cover	5,4	7,0	5,4	nil
Return on cap (%) ..	14	17	5,4	nil
Turnover (Rm)	19,5	32,9	45,3	35,0
Pre-int profit (Rm) ..	2,6	6,1	2,0	(7,4)
Pre-int margin (%) .	10,0	18,7	4,4	nil
Earnings (c)	16,9	30,3	33,3	(73,5)
Dividends (c)	5	10	12	nil
Net worth (c)	434	63,7	128,0	63,4

The pre-tax loss of R7,9m has come close to ruining this company — one that showed such promise just a short while ago. While there were other reasons for the situation that has arisen, Faircape has long carried too much debt; high gearing was a major reason for last year's problems.

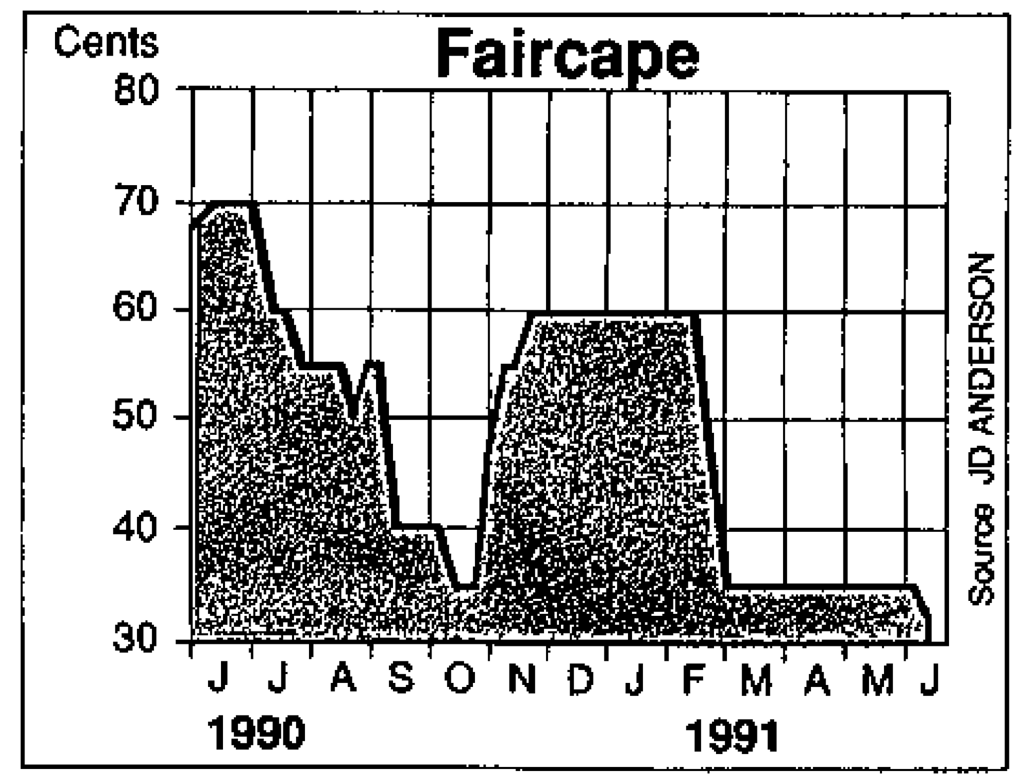
All that was needed was a setback in the pace of business to swing the group into a loss. Political conflagrations in the townships triggered this swing.

First there was the rent boycott, which included bond repayments. In terms of the conditions on which finance had been granted to home-buyers, Faircape was often obliged to reclaim properties for which it had been paid, repay the proceeds to the lender, and then try again to sell the dwelling — sometimes in impossible circumstances where purchasers were evicted by neighbours — and often at a loss. Sometimes the buildings had been destroyed.

Worse still, financial institutions withdrew to the sidelines to wait for normality to return. This left Faircape with little room to pursue its main business of building and marketing low-cost housing for blacks.

Management was forced to redirect its efforts. Development is now aimed mainly at high security, sectional title group schemes for private-sector and government-subsidised buyers. It's also hoped to become involved with government in the building activities expected to result from social upliftment programmes. However, the building operation has been discontinued and this activity is now contracted out. Land holdings have been sold.

Apart from apprehension about profit generation from future contracts, a worrying aspect of the Faircape accounts is that, despite all the reconstruction, the gearing is back at nearly 400%. This is partly because shareholders' funds have fallen from R11,6m to R5,8m after the loss. But, no matter how the directors try to justify it, it is too high.



Short-term prospects in the property development market cannot be described as encouraging, unless government or quasi-government contracts are involved. Though the 30c price of the thinly traded share is less than half its net worth, unless the investor is prepared to accept high risk, it would be prudent to invest elsewhere. *Gerald Hirshon*

FM 28/6/91 (58)

SECURITISATION FM 28/6/91

SHORT-CIRCUIT

(58)

SA's second securitisation issue, Sasfin Asset Securitisation, worth R250m, is the first to be credit rated. Consisting of short-term rental receivables of the assets — office automation equipment — of trade and instalment finance house Sasfin, it was listed on the JSE under debentures, notes and loan stock on Wednesday June 26.

Republic Ratings, which started operating in June 1990, has given it a double-A.

The agency has not been asked to rate SA's first issue, United Building Society's securitisation of R250m of its mortgage book in November 1989, MS101.

The double-A rating is the equivalent of that given to First National Bank (FNB), but the methodology used to rate a securitisation issue is different to that applied to companies and institutions for which quality of the financial ratios and management, strategic risk factors and future earning potential are taken into consideration.

Republic Ratings senior analyst Leon Claassen says a securitisation issue can be structured to achieve a desired rating.

A statistically based asset-loss model ... the "loss severity" and "foreclosure frequency" history of the type of asset. The level of credit enhancement needed is determined accordingly. Credit enhancement can take several forms, including over-collateralisation — assets which exceed the pool of funds — or use of a third party as a credit supporter.

This insulates the issue from any risk attached to the originator, servicer or trustee.

The method of credit enhancement and liquidity support has to conform to certain standards. For example, if the issue is guaranteed by a third party, it cannot be rated higher than the guarantor's long-term unsecured debt rating (or claims paying ability). "So the double-A rating given Sasfin Asset Securitisation is not an indication of Sasfin's own creditworthiness," Claassen says.

Credit Guarantee Insurance Corp (CGIC) was used as the credit enhancer. CGIC's major business is the insurance of domestic and export credit risks. It has already been given a double-A by Republic on its claims-paying ability. CGIC has underwritten R12,5m of the first R30m tranche.

Though Sasfin originated these assets, they have been sold to a separate company called Sasfin Asset Securitisation, which is a wholly-owned subsidiary of Discount House Risk Management (DHRM). The latter initiated the issue on behalf of Sasfin.

As administrator of the issue, Sasfin will continue to service the assets and liaise with users.

The securitisation provides for the replacement of the servicer should he be unable to perform his function.

DHRM securitisation consultant Annelies Jacobs says a listing was chosen so investors don't have to pay the 1,5% of the face value of the debentures' stamp duty every time the stock is traded. Investors have to pay only brokers' commissions. A listing also makes the debentures more tradable.

Sasfin MD Roland Sassoon says securitisation was chosen to enable the group to go direct to the source of finance — institutions — rather than through banks. "This gives us a much larger and more dependable source of finance at lower rates than we would get through banks," he says.

The securitisation allows Sasfin to fund itself without additional debt on its balance sheet, which would hurt its debt:equity ratio.

☐ The unsecured compulsorily redeemable floating-rate asset-backed debentures have a final maturity on June 21 2011. Their shortest lifespan will be five years and the longest 20. The nominal value of each unit will be R10 000 (it was R100 000, but the Reserve Bank changed the guidelines to make units more tradable).

Redemptions will be on the same days as the BA futures close-out — the 14th of February, May, August and November — in amounts of not less than R100 000. Redemption value will be 100% of the face value of each debenture plus interest. Interest will be paid quarterly. ■

METROPOLITAN LIFE FM 28/6/91

RAISING CAPITAL (58)

Sankorp, majority shareholder of Metropolitan Life (Metpol), believes value in its own portfolio will be unlocked if Metpol shares become more negotiable. It has, therefore, agreed to make 10m of its Metpol shares available to other investors (*FM* June 21).

On the face of it, there is no obvious benefit to Metpol in simply making its shares more marketable. Sankorp GM Attie du Plessis feels otherwise. He believes the "larger marketability must have a positive influence on the company as it will increase the value of the shares."

At the same time, Metpol has decided to hold a rights issue. This is not being done

FM 28/6/91 (58) **FOX**

because the company must raise additional capital to ease new business strain, but because an expansion of the capital base would enable management to take the opportunities that arise as the business grows.

The current 72% direct holding of Sanlam/Sankorp is to be reduced to about 49% by sale of 10m Metpol shares. Of these, 8m have been placed with various financial institutions, all of whom have agreed to follow their rights.

Through a special "clawback" agreement between Metpol and some of these places, Metpol can call back 1,6m shares. Staff and other interested parties are to be offered 600 000 and 1m are to be offered to Metpol policyholders at 950c (a discount to the ruling price of 1 025c). Du Plessis says the remaining 2m have been placed with the public through stockbrokers.

Sankorp Bestuur is underwriting the rights issue. Pitching price of the rights has not been announced, but shareholders will be offered 50 shares for every 100 held. It is intended that the issue will raise about R190m for Metpol. On that basis, the rights issue price should be about 875c per share. Nevertheless, the final rights issue price, to be determined towards the end of July, will depend on how the market price holds up.

For shareholders who want to participate in the rights issue, the last day to register is Friday, August 2. Those registered then will be eligible for a special interim dividend of 18c per share.

Metpol's earnings performance over the past five years has been sound and there is no evidence to suggest EPS growth is tailing off. On the contrary, Metpol's market — primarily the more affluent blacks — is expanding rapidly. Management is confident that, even with the rights issue, EPS will show real growth in the 1992 year.

continue →

FOX FM 28/6/91 (58)

The rights issue looks worth following. And the positive historical record, together with favourable prospects, make the share attractive — assuming the market holds up.

Gerald Hirshon

FM 28/6/91 (58)

DISCOUNT HOUSES

FM 28/6/91

CARVING A NICHE (58)

Once the intermediaries of monetary policy, discount houses are now simply players in the markets. Since their preferential discount rate from the Reserve Bank was abolished in 1989 and legislative changes reduced them to the status of deposit-taking institutions, they have been obliged to carve a new niche for themselves.

The former discount houses are: Discount House of SA (DHSA), National Discount House (NDH), Securities Discount House (now Securities Investment Bank) and Interbank. The last three are now under the umbrella of the Sechold group.

DHSA is developing a banking operation from scratch. Chairman Colin Dunn says: "We are a niche bank, concentrating on corporate finance and security trading, in merchant banking style." DHSA is also involved in securitisation — repackaging a company's assets into negotiable securities. This follows its role in SA's first issue in November 1989 — R250m of United's mortgages were securitised in an issue known as MS101. A second issue is under way.

The houses have no intention of becoming retail banks. In Dunn's words: "We don't intend entering any area requiring substantial investment or technology."

Constrained by their capital, the Sechold subsidiaries are equally cautious. But they offer specialised banking services and are looking to extend the range, in time.

Says Sechold MD Arthur Kelly: "The new Act has given us greater flexibility, in terms both of liquid asset requirements and our client base."

Discount houses were limited to liabilities (mainly unmatched repurchase agreements and call deposits) valued at 50 times their capital. Also, they could accept deposits from only a limited range of financial institutions. Under existing legislation, there are no limitations on the value of liabilities, provided they are covered by prudential requirements; a capital requirement based on a risk-weighting against assets, is less onerous, in terms of existing business, than under the previous dispensation. And they are free to take funds from anyone.

The basis of Sechold's business, however, remains trading in securities in the money, capital and derivative markets. "NDH competes, in specific areas, with merchant banks and stockbrokers," says MD Bill Scotcher. "We have become a securities trading or investment bank — trading, as agent or principal, as well as offering complementary project finance." For Interbank the emphasis is on agency dealing in all three markets, while Securities concentrates on certain derivatives.

Dunn tried to persuade the authorities to allow specialised security trading institutions. He was unsuccessful and remains concerned about possible damage to the security trading industry in the new environment. In the past, he argues, discount houses traded in credit created by others (BAs, for example), for the sake of market-making. "Now it's more a case of trading your own book, resulting in less liquid markets."

In terms of a temporary concession, call money lodged by banks with the former discount houses is still regarded as a liquid asset and discount houses do not have to hold prudential requirements against it. The concession will hold for up to two years from February 1, when the DTI Act came into force. Of these deposits, 87,5% must be invested in liquid assets and 12,5% in non-liquid bills, certificates of deposit and government stock dated longer than three years. ■

One solution, McRae feels, would be for developers to research demand patterns and market sentiment more carefully. He suggests they work in close co-operation with marketing and selling organisations prior to committing themselves to new schemes.

As regards the rest of the market, McRae concedes that there are several problem areas. Nevertheless, he believes the fundamentals are in place for a market "upsurge" this year or perhaps next. The abolition of the Group Areas Act, he notes, has already had an impact on prices and demand patterns in specific areas.

"As far as the more direct impact is concerned, if one assumes that as little as 1% of the black population can afford homes of R150 000 or more, we are still looking at an influx of 25 000 additional prospects to the pool of buyers."

On the downside, he doubts interest rates would fall significantly in the short term, unless there was a major breakthrough in the fight against inflation. However, he considers an easing in bond rates essential to keeping the window of affordability open to encourage sales.

"Government," he urged at the convention, "must develop a national strategy which will encourage home ownership — not merely by means of low cost housing, but in terms of an overall blueprint for all levels of housing. Such an approach must be adopted in order to avoid a housing poverty scenario."

On the question of the impact of VAT, he notes that though the new tax was still being debated, most observers accept that it would push up the cost to private owners of new dwellings.

"There could well be a strong 'beat VAT' rush on new houses in the short-term leading up to the introduction of the tax. Prices will increase and resale prices will rise in sympathy."

While McRae expressed optimism about the short-term future of residential property, one wonders whether his bullishness isn't misplaced. It could well be that prices and demand will improve in line with a general economic upturn, but he said little to support his assertion that the fundamentals were in place for an upswing, or even a boom. ■

HI-TECH

PUSH-BUTTON AGENTS

It's going to take more than a gift for smooth sales talk for an estate agent to move property in future. If his agency isn't computerised, he'll more than likely lose the deal to one that is.

Few agencies are computerised at present, but dependency on the new technologies available is growing and most firms are expected to computerise within the next 10 years.

In a booklet entitled *Top Real Estate Firms of 1991*, property consultant Stefan Swanepoel and publisher of *A New Era in Real Estate*, notes that less than 10% of estate agents are currently computerised. However, he says this figure should rise to 75% by the year 2000.

A primary reason is that many firms feel they are too small to justify the heavy capital investment required. In contrast, the top 50 firms by size are already well on their way towards being fully computerised.

Swanepoel's latest survey reveals that they all use fax machines, 90% use personal computers and 76% use word processors. Other equipment frequently found in hi-tech estate agencies include pagers, Minitel (the Post Office's videotex service), printing equipment (including desktop publishing facilities), photographic and studio equipment and electronic measuring equipment.

But what are the benefits of this hi-tech

RESIDENTIAL

TOO CLUSTERED (58)

While Dunkeld's planned walls may have been breached, there seems little doubt that Sandton and Randburg are rapidly showing a preference for walled-in living.

An estimated R800m is in the process of being spent on between 75 and 80 new cluster housing developments in Sandton and Randburg. Included in this are around 80 housing units with price tags in excess of R1m. FM 28/6/91

The figures come from Camdon's Scott McRae who questions whether it makes business sense to develop such upmarket properties — particularly in such large quantities — when the market for them is limited.

Addressing the Sapoa convention on the state of the residential property market, he conceded that cluster housing units were among the most popular forms of housing because of modern lifestyles and the security they offered.

"Nevertheless, we have a serious glut of upmarket cluster housing in the Sandton and Randburg areas. I would like to know where we're going to find buyers for these developments."

In contrast, he noted that there was a dearth of new cluster housing units in Durban. "Quite obviously developers are not doing their homework. The situation calls for a drastic re-evaluation of strategies, firstly to move the existing stock as quickly as possible, and secondly to avoid a similar glut occurring in future."

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Allied staff cuts loom amid Absa streamlining

BDay 25/6/91. 58. 305

SHARON WOOD

ALLIED is looking at retrenching staff members as it streamlines operations within the Absa group.

Sources said yesterday Allied would offer staff members a retrenchment package of three months' pay, as well as half a month's pay for every year worked.

Allied MD Bob Aldworth said there had been no retrenchments yet.

"We are looking at the question of staff numbers and will then decide what to do."

He said natural attrition would occur as staff resigned or retired.

Union

But if this was not sufficient Allied would have to decide whether to retrench staff.

"If we do decide to retrench we will do it the proper way. The package offered to staff members will be negotiated with the union," he said

The package offered would be in line with the one suggested by the sources because this was the "normal type of package negotiated with a union".

After the Absa formation the group's chief executive Piet Badenhorst was reported as saying staff need not fear massive retrenchments during the longer-term rationalisation process of the group.

Former Allied Building Society MD Don Hunter had said in an interview after he resigned there would be no retrenchments at Absa and lower staff levels would be achieved by natural attrition.

In another Absa-related development, Volkskas substantially increased its market share when its Northrand corporate banking division acquired all Sage's banking interests earlier this month.

Volkskas will initially take over Sage Financial Service's cheque and corporate banking services.

Volkskas Corporate Banking regional manager Johan Nel says in the latest Volkskas News: "We spent months negotiating for the accounts but somehow just couldn't get them hooked.

"One of Sage's facilities at another bank recently expired and we had the opportunity to offer them a good financial package."

In addition, Volkskas will now handle the income accounts of the Mine Officials Pension Fund and the salaries account of the Mine Pension Funds Management Corp, which are both major shareholders in Absa.

The total assets of the Mine Officials Pension Fund amounted to more than R4bn in 1990.

Old Mutual investment targets pension funds

BDay 26/4/91 LIZ ROUSE (58)

OLD MUTUAL Employee Benefits has developed an investment instrument for pension and provident funds which combines a guaranteed return with the opportunity of a high return.

28/6/91

The institution said in a statement the Guaranteed Investment Contract (GIC) was based on an investment asset widely used in the US.

The GIC combines the advantages of guaranteed investment returns and a high rate of investment return. Old Mutual Employee Benefits division GM Garth Griffin says the GIC has been designed to meet the needs of the SA market and offers a new investment option to the trustees of pension and provident funds.

The GIC is a fixed period investment with steady income accruals. The accumulated value — capital plus income — is fully guaranteed for payment when the contract matures. The rate of income is indexed to Old Mutual's with-profit Guaranteed Fund, which in the past has consistently outperformed inflation.

According to the Consulting Actuaries's Survey, interest-bearing investments of pension funds yielded a median return of 14% over the 10 years ended December 1990. The return of a 10-year GIC would have been 18,3%.

Had it been possible to invest in GICs 10 years ago, an initial investment of R1m in a 10-year GIC would have been worth R5,5m at the end of the period, compared with R3,8m if the investment had been in interest-bearing investments — an increase of R1,7m.

COMPANIES

Saambou seeks better balance of assets and liabilities

BDay 28/6/91

GRETA STEYN

SAAMBOU's annual report discloses that its money market operation was in deep trouble before new management took over.

The report provides more detail than the March year-end results published about two months ago.

It shows that Saambou paid more interest on deposits than it earned from loans. Interest paid on deposits was R629,8m while income from interest was R599m, yielding a deficit of about R31m.

The Standard Bank Group, by contrast, had a net interest income of R1,4bn.

The group took action to improve its money market operation after new MD Johan Myburg took over. He has conceded that asset and liability management was not up to scratch.

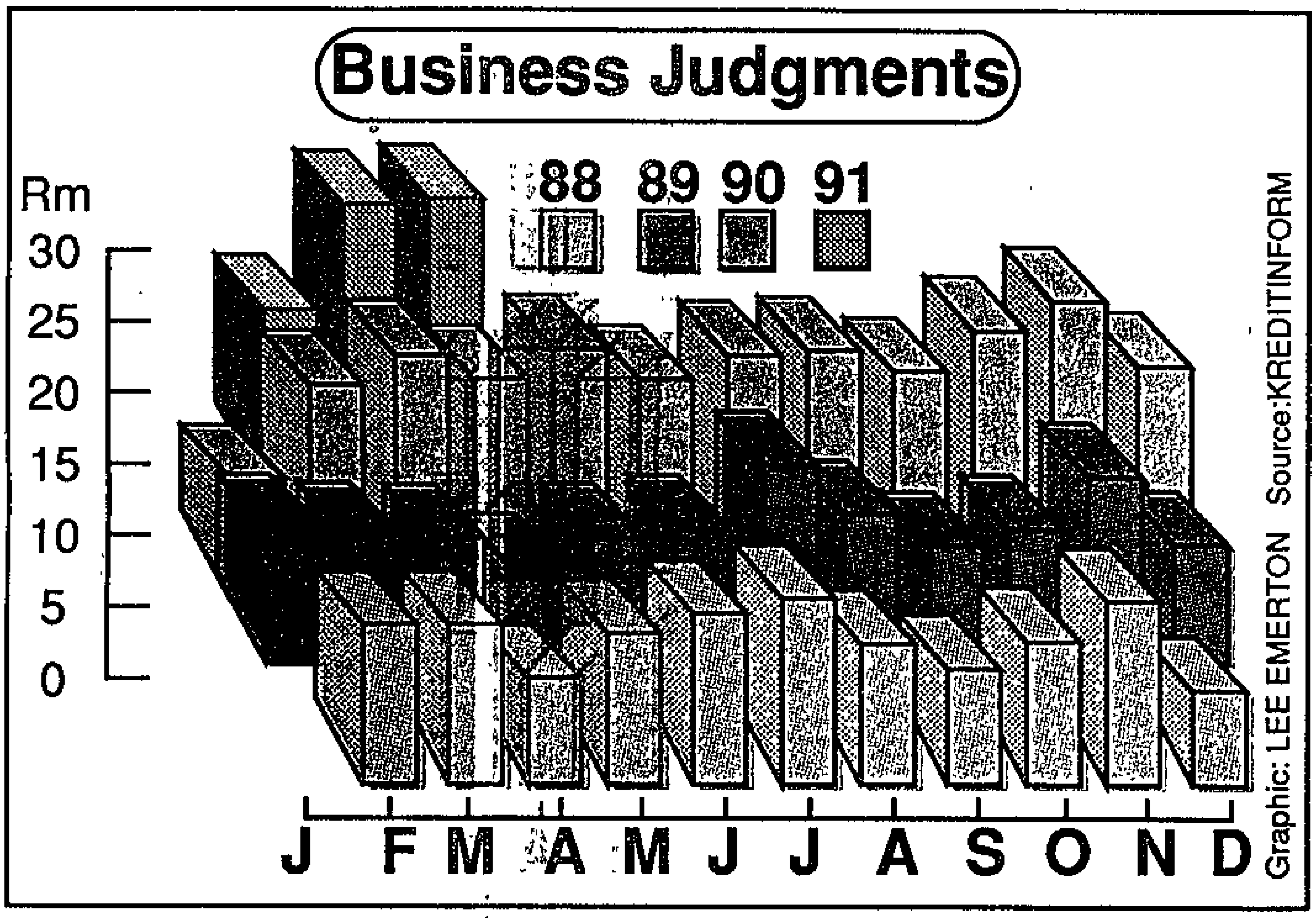
The annual report says Saambou needs a more balanced spread of assets and liabilities, "resulting in potentially higher margins".

Myburgh also implemented a rationalisation drive to cut costs, which had been increasing at a rate of 34%.

(58)

The annual report says rationalisation of infrastructure and human resources has been completed. Corporate finance has been scaled down, and the group will focus on individual clients rather than on companies.

Saambou announced a R28m loss for the year to March, reflecting mainly huge write-offs for bad debts. But chairman Hendrik Sloet says "a concerted rebuilding strategy" has begun.



Banks have to stay close to clients in assessing problems

B I Day 28/6/91

MEMBERS of the local banking community need to recognise there is more to credit risk management than assessing their loan clients up front, says banking & finance group KPMG Aiken & Peat partner Paul Smith.

"Credit risk is management of exposure to debt — and it's not enough for banks to do their homework on a client up front," he says.

"Assessing a customer's ability and willingness to service and repay a loan must be followed by ongoing contact with the client."

Minimising

This approach will enable banks to spot trouble for the client in advance — making it possible to help him through a difficult period while minimising the bank's exposure to risk.

"Banks need to establish procedures for identifying at an early stage that a client is heading into trouble.

"Going to a client's premises, getting involved in his business and helping him deal with the problem and, where appropriate, even financing him timeously so he can ride out a difficult patch could keep him from going to the wall.

"At the same time, the bank can start making provision against a possible bad debt in time to absorb the loss."

In part, the banking community's diffidence is due to the negative response from clients who find themselves under the spotlight.

But the business community at all levels needs to learn to see bankers as partners rather than adversaries.

Understand

58

While an ill-informed "rescue operation" could, in the long run, damage a client's ability to perform, Smith says a bank that knows its business will know its clients' business as well.

"There are good banks and bad banks — and the good ones have people in the field who understand their clients and their industries and can get involved at a positive level.

"Bad banks don't offer more than a manager, who sits in his office reading balance sheets.

"More than one bank has tottered in the past year or so for bad credit management.

"Bankorp would probably not have survived had big brother Sanlam not come to the rescue, and Cape Investment Bank was overpowered by the weight of its bad debts," he says.

Among the aims of the Deposit-Taking Institutions Act, which replaced the Banks Act from February, is to emphasis proactive rather than reactive risk management.

The objective is to bring local banking in line with international standards.

Focusing

The Registrar of deposit-taking institutions is focusing a spotlight on the banks' ability to manage their liquidity, price, sovereign (international) and credit risks.

Empowered to call for special reports from banks illustrating their standards of risk management, among other issues, the Registrar has selected credit and price risk management as "flavours of the year".

In the process, he is forcing the banking community to develop the risk management expertise lacking in the past.

First big buy since sanctions

(58)

S Times (Bus T)

30/6/91

Business Times Reporter

FRENCH bank Societe Generale's acquisition of The International Bank of Johannesburg is the first big investment in South Africa by a European firm since sanctions, says executive director Sandy Gillio.

Societe Generale bought full control of this corporate bank for an undisclosed sum last month from Bankorp, which held 50%, and foreign shareholders.

International Bank, which has been renamed Societe Generale South Africa, has assets of about R500-million, shareholders' funds of R30-million and 100 employees.

Mr Gillio says the bank offers a range of services, but will concentrate on trade financing for businessses. He says it can give good service to exporters and importers through Societe Generale's network in 62 countries.

It is well represented in Africa. Several expatriates with expertise in foreign exchange and derivative products are being brought out to develop this side of the business.

But there will be no major changes in the present management structure.

Societe Generale is France's biggest privately owned bank with assets of R500-billion.

Mr Gillio has been sent here by the parent company to run the bank with the existing managing director, Peter Gray.

Magomola banks on the future

C|press 30|6|91.

(58)

By DERRICK LUTHAYI

THE people behind South Africa's newest bank believe it is the one of the future – so they have called it the Future Bank.

Although news of the new bank leaked out early in the week, its name was kept secret until City Press established on Friday that its registration had been confirmed by the Reserve Bank.

The bank will be launched in August and will open for business in October with 20 branches – five in each province.

The new bank, of which Gaby Magomola is chief executive, has received R7-billion support from the First National Bank, channelled through its subsidiary WesBank.

The new bank is a joint venture by the Foundation of African and Consumer Services (Fabcos) and WesBank.

Fabcos, with a membership of 1,3 million, will provide the bulk of the massive client base.

The main anchors of the bank will be Fabcos's biggest affiliates, South African Black Taxi Association (Sabta), the National Stokvels Association of South Africa (Nasasa) and the South African Taverners' Association (SATA). The three organisations' combined annual turnover is close to R320-million.

It is believed the bank is going into a market which has not been explored before – the informal and small business sectors.